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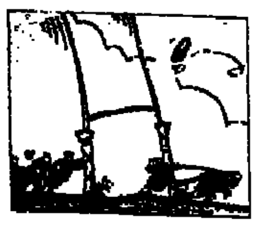

Executive share options
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WORLD NEWS

Albanian premier goes into hiding as violence spreads

Albanian prime minister Fatos Nano went into hiding yesterday, claiming a coup was being organised by opposition mobs in Tirana. Supporters of former president Sali Berisha commandeered tanks and seized a broadcasting centre as violence gripped the capital for the second day running. Page 2

Iraq spurns sanctions review
Baghdad is "walking away" from a possible review of United Nations sanctions by not co-operating with UN weapons inspectors, said Richard Butler, head of the commission on dismantling Iraq's weapons of mass destruction. Page 5

Schröder focuses fight on Kohl
Gerhard Schröder, Social Democrat candidate for chancellor, painted Germany's September 27 election as a straight fight between himself and Helmut Kohl as he dismissed his party's poor Bavarian poll results. Page 3; Second wind for Kohl, Page 20

Indonesian unrest continues
Shops were looted and buildings damaged as thousands of public transport workers demonstrated in Medan in the latest protest against Indonesia's surging prices. There were also protests in the second city, Surabaya.

Tehran steps up war of words
Iran's supreme leader, Ayatollah Ali Khamenei, warned the Afghan Taliban movement and Pakistan that their actions in Afghanistan could provoke regional conflict. Page 5

Europe's health deteriorates
Europeans' life expectancy has fallen from 73.1 years in 1991 to 72.4 in 1994, says the World Health Organisation.

UN seeks flood aid for Bangladesh
The UN World Food Programme asked for an extra 355,000 tonnes of wheat for Bangladesh, where floods have killed at least 950 people and left millions facing hunger and disease.

No early release for Leeson
Nick Leeson, the UK trader who brought down Barings bank, will not be freed early from prison. Despite his cancer, the Singapore authorities say his condition does not warrant early release.

China's ex-president dies
Former Chinese president Yang Shangkun, who was sidelined as a rival to the late leader Deng Xiaoping, died aged 92. He was an architect of the 1989 crackdown on pro-democracy demonstrations in Tiananmen Square.

UK ruling on Viagra
Britain's health department told doctors not to prescribe Pfizer's anti-impotence drug Viagra under the state-funded National Health Service, citing cost worries.

Malta renews EU application
Malta has renewed its quest for European Union membership. The Mediterranean island had applied to join in 1990.

Breakfast bars
A London top security prison is offering 200 guests bed and breakfast in its cells to give them a glimpse of life behind bars.

Former Alabama governor dies
Former Alabama Governor George Wallace, champion of segregation and four times a US presidential candidate, has died aged 79. Obituary, Page 6

BUSINESS NEWS

Barclays Capital hit by European bond market turmoil

Barclays Capital, the UK investment bank, is running into difficulties with a $590m exposure to the European leveraged buyout sector owing to turmoil in the European bond market. Page 23; Bonds, Page 34

The Bank of Japan is considering injecting more money into the economy by increasing its monthly purchases of Japanese government bonds from Y400bn to Y600bn ($2.75bn to $4.1bn). Page 22; Japan's new warriors, Page 20; Observer, Page 21

Daimler-Benz was assured of an easier ride in gaining shareholder approval for its $40bn merger with Chrysler when US tax authorities lowered the minimum threshold of Daimler shares that have to be exchanged for new DaimlerChrysler stock. Page 26

NTT DoCoMo, the world's largest mobile telecoms company, formally announced its initial public offering and intention to list on the first section of the Tokyo Stock Exchange in a move set to raise about $15bn. Page 23

Fitch IBCA, the rating agency, downgraded German bank Landesbank Rheinland Pfalz and said it was "almost certain" to downgrade Westdeutsche Landesbank because of their exposure to Russia. Page 28

Old Mutual, the South African life assurer and asset manager aiming to demutualise next year, is negotiating with the South African authorities over plans to list in London. Page 23

Israel's high-tech venture capital funds, which have raised nearly $1.5bn since 1991, have accumulated more money than they can spend wisely, says one Israeli venture capitalist. Page 26

Tellabs, the US telephone equipment company, has abandoned its attempt to buy Ciena, the fibre-optics group, as Ciena warned of a worsening financial outlook. Page 23

Pakistan's commerce ministry has called a meeting of cotton businesses and farmers amid mounting pressures to relax restrictions on cotton exports. Page 4; Fall in exports, Page 12

Investor, the main investment vehicle of Sweden's Wallenberg business empire, is appointing more international directors at companies it controls. Page 30

GEC, the UK defence and electrical goods company, confirmed it is to buy the computed tomography subsidiary of Elscint of Israel for $275m. Page 31

Union Bank of Norway is to issue up to NKr2.084bn ($276m) in primary capital certificates to finance its planned acquisition of Gjensidige Bank. Page 28

Lukoil, Russia's largest fully integrated oil company, suffered a 50 per cent drop in pre-tax profits in the first half of the year, to Rbs1.2bn ($103m). Page 28

Södelektra Holding, the world's biggest ferrochrome producer, has more than trebled first-half net earnings to $46.3m. Page 26

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Clinton highlights need for global response to turmoil

US president outlines six steps to stave off financial crisis

By Stephen Fidler in Washington and Max Wilkinson in London

President Bill Clinton yesterday reflected heightened US concern about the state of global financial markets and outlined six steps that should be taken immediately to stave off further crisis.

They were:

- to work with Japan, Europe and other nations to spur growth
- to expand efforts to allow businesses in Asia to emerge from their crippling debt
- a request to the World Bank to double its support for a social safety net in Asia
- a request for the main industrialised countries to relase $15bn of funds in the General Arrangements to Borrow on the International Monetary Fund to help Latin America
- increased lending by the US Ex-Im bank over the next three months
- an exhortation to Congress to increase the capital of the IMF

His points were made as world financial leaders yesterday responded to the threat of a global economic slowdown with the promise of concerted action to stimulate the leading economies if that should prove necessary.

In a statement released in the financial centres, ministers and central bank governors of the Group of Seven industrial countries revealed they had been having urgent discussions in the last few days about the "challenges" now facing the international financial system.

Their statement followed strong hints 10 days ago from Alan Greenspan, chairman of the US federal reserve, that he might be ready to ease interest rates if the outlook for the US economy deteriorated.

Last week, the Bank of England dropped a similar hint, while Japanese officials made it known that they were prepared to stimulate their economy by monetising some of Japan's debt.

The G7 statement suggests that, if necessary, there might be a concerted lowering of interest rates throughout the industrialised world in response to the turmoil. They G7 nations said inflation was low or falling in many parts of the world and that the balance of risks in the world economy had shifted. They would therefore would explore ways to "reinforce existing programmes in support of growth-oriented policies".

They reaffirmed the importance of the IMF in helping to solve the problems, including the possibility of activating the IMF's General Arrangements to Borrow to increase funds available to it.

Mr Clinton, speaking in New York, said he had asked Robert Rubin, the US Treasury Secretary, and Alan Greenspan, the Fed chairman, to convene within 30 days a meeting of their counterparts in the Group of 22 leading industrialised and emerging economies. This, officials said, was likely to take place at the Washington annual meetings of the IMF and World Bank early next month.

Mr Clinton said that with a quarter of the world's population living in countries with declining or negative economic growth "the industrial world's chief priority today plainly is to spur growth". US officials denied that this meant the president was putting pressure on the Federal Reserve to cut interest rates.

The G22 meeting would discuss what Mr Clinton described as a longer-term project to create international financial institutions to "adapt the international financial architecture to the 21st century".

Discussions have already taken place on this topic. A senior IMF official said yesterday that controls on capital flows could be in the future be regarded in a more positive light by the IMF than it has in the recent past.

President Bill Clinton leaving the White House yesterday to make his speech urging a global reaction to financial crisis Picture: AP

President takes a lesson from Lion King

Business as usual for Clinton in New York as Starr says investigation will move into 'other phases'

By Richard Wolffe in Washington and Richard Waters in New York

Garbage trucks packed with sand were rolled on to the streets of New York yesterday to provide a presidential shield in the event of a terrorist bomb attack.

And while the barriers did little to protect a struggling President Clinton from the wrath of an angry nation, they at least brought a temporary significance back to his mission: to help bring order to a troubled world.

Mr Clinton ventured to New York yesterday in what amounted to his first attempt to reclaim the mantle of his presidency since last Friday's publication of the damning report on his sexual relationship with Monica Lewinsky by Kenneth Starr, the independent counsel.

It seemed fitting that Mr Clinton should attend a gala fundraising event last night at New York's latest hit show, the Walt Disney musical The Lion King – the sentimental tale of wayward young lion cub growing to maturity and reclaiming his realm from the powers of darkness.

The White House insisted it had returned to business as usual yesterday as the president addressed the global financial crisis while Congress digested the Starr report's arguments for impeachment.

Members of the judiciary committee of the House of Representatives – aided by 27 staff – were yesterday trawling through more than 2,000 pages of unpublished documents delivered by Starr last week.

However, the president came under continued attack yesterday in the wake of the Starr report's detailed account of his 18-month affair with Ms Lewinsky, the former White House intern.

USA Today, the widely circulated national broadsheet newspaper, joined several regional newspapers to call on Mr Clinton to resign immediately rather than suffer "months of continued national embarrassment".

Meanwhile, Mr Starr responded to criticism that his report focused excessively on the sexual details of the Lewinsky affair by saying that his investigation would be moving into "other phases".

In his report, Mr Starr suggested that further inquiries were needed into other aspects of the Lewinsky case, including possible attempts to influence the evidence of Kathleen Willey, who alleged further sexual misconduct against Mr Clinton last year.

Republicans in the House of Representatives continued to call for President Clinton's resignation yesterday. Greg Ganske of Iowa and John Thune of South Dakota both urged him to "do the honourable thing and resign".

Argentina seeks loans up to $6bn

By Ken Warn in Buenos Aires

Argentina is seeking to finalise a $5.5bn-$6bn loan package from multilateral lending institutions and local private sector banks to help shield the country from the global economic turmoil.

Details of the package, which is expected to include financing from the World Bank and Inter-American Development Bank, will be announced before the end of this month.

The loans would be used to tide Argentina over until the end of the first quarter of 1999 should it prove unable to borrow in the debt markets because of continuing financial instability.

The funding would be separate from Argentina's existing $2.8bn extended fund facility with the International Monetary Fund, which the government has no plans to draw down.

"This should be a very strong signal to the markets that we are well advanced in meeting our financing requirements and help remove any concerns over our liquidity," said Pablo Guidotti, deputy economy minister.

Officials stressed Argentina still hoped to meet its financing needs through the markets, and the stand-by funding was intended to be "complementary" to commercial borrowing.

A government campaign to persuade foreign investors that the country's economic fundamentals remain strong has so far failed to lift the stock market, which has tumbled in step with neighbouring Brazil. However, some relief came yesterday with the Merval leading share index up 1.7 per cent in early trading to 327.6. In São Paulo, Brazil's Bovespa index of the 57 most traded shares was up 2.3 per cent by mid-day.

Argentina remains dependent on inflows of foreign capital to service its $100bn-plus external debt, and bridge its fiscal deficit, which it aims to cut to around 1 per cent of GDP this year. The country has yet to raise $2bn to complete its 1998 borrowing programme, while next year's needs are estimated at $14bn.

News of the negotiations came as Roque Fernández, the economy minister, prepared to present an austere 1999 budget to Congress in a further attempt to "differentiate" Argentina from other emerging markets in investors' minds.

Bank deposits have so far shown no signs of slipping, signalling continuing confidence in "convertibility", the currency board system that pegs Argentina's peso at par to the dollar.

Deposits yesterday edged up to $76.9bn, while central bank foreign exchange reserves stood at $24.5bn. The total reserves of the financial system, including a "repo" facility maintained with international commercial banks, stood at $31.5bn.

World stocks, Page 46

WORLD MARKETS

STOCK MARKET INDICES

New York: Lunchtime		
Dow Jones Ind Av	9024.65	(+229.15)
NASDAQ Composite	1676.09	(+34.45)
Europe and Far East		
CAC40	3714.81	(+136.47)
DAX	4896.49	(+159.34)
FTSE 100	5258.6	(+150.0)
Nikkei	14,227.37	(+310.39)
US Lunchtime RATES		
Federal Funds	5.6875%	
3-mth Treas Bills Yld	4.56%	
Long Bond	103[illegible]	
Yield	5.26%	
OTHER RATES		
UK 3-mth Interbank	7 1/8%	(5.69[illegible])
UK 10 yr Gilt	115.2344	(115.382)
France: 10 yr OAT	108.10	(108.37)
Germany: 10 yr Bund	108.97	(109.18)
Japan: 10 yr JGB	114.74	(114.67)
NORTH SEA OIL (Argus)		
Brent Dated	$12.63	(12.705)

GOLD		
New York Comex	$290.6	(293.9)
London	$289.95	(293.45)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6795	
DM	1.69895	
FFr	5.6905	
SFr	1.40	
Y	132.705	
London:		
£	1.6768	(1.6839)
DM	1.7031	(1.6878)
FFr	5.71	(5.6642)
SFr	1.4043	(1.3875)
Y	133.055	(131.045)
Tokyo Close		Y 132.585
Sterling		
DM	2.8557	(2.8419)

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RUSSIA'S CRISIS 'EXTRAORDINARY MEASURES' TO PAY ARREARS OWED TO WORKERS

Primakov may be ready to print money

By Arkady Ostrovsky in Moscow

Yevgeny Primakov, Russia's new prime minister, said yesterday the government might resort to "extraordinary measures" to pay off massive wage and pension arrears owed to state workers.

Mr Primakov did not specify what he had in mind, but he appeared to be preparing the ground to print money.

"We should make clear to the population that all inflationary turns, which are inevitable, and price increases, which will go ahead in a corresponding manner, will be duly compensated for the low-paid section of the population," Mr Primakov said.

The warning came as Mr Primakov's still incomplete cabinet met for the first time with its final political complexion still unclear. Victor Chernomyrdin, the former prime minister, said after meeting Mr Primakov that Boris Fyodorov, the acting deputy prime minister in charge of macroeconomic policy, and Mikhail Zadornov, the acting finance minister, might keep their jobs.

Both men are outspoken proponents of tight monetary policies and are considered strong market reformers.

Grigory Yavlinsky, the leader of the liberal Yabloko party, who first publicly proposed Mr Primakov for the post of prime minister, said he had turned down a post in the cabinet because he disagreed with the economic policies of Mr Primakov's economics chief, Yuri Maslyukov, a Communist party member and former central planning chief.

The Communist party also distanced itself from the new government, however. Gennady Zyuganov, the party's leader, said he would not be proposing anyone for the cabinet until he knew more about Mr Primakov's economic policies.

Mr Primakov has said he will not be dominated by Russia's powerful bankers as previous governments had been. Industry chiefs and banking tycoons alike – the so-called "oligarchs" – have said they support the controlled "emission" of roubles. But signs emerged yesterday of open rivalry between the two groups.

"For seven years we have been in isolation, suffocating without any real investments, which have been channelled into commercial banks," said Andrei Kochetov, head of the development and investor relations department of Lukoil, Russia's largest oil company. "But the era of the speculative financial sector is over."

Mr Kochetov said a controlled emission of money would inject liquidity into an economy which has been handicapped by barter trading and non-payments. The question, however, remains as to where the money would go.

Mr Kochetov said Lukoil was encouraged by Mr Primakov's promise to put greater emphasis on the "real economy" and to support industry.

Mikhail Berger, the liberal editor of the daily newspaper Segodnya, yesterday told a group of foreign investors that one of Mr Primakov's great advantages was his independence from the banking oligarchy. "The government will not give in to the pressure from powerful financial groups," he said.

Report on Russian crisis prepared for G7

By David Buchan, Diplomatic Editor, in London

Leaders of the Group of Seven industrialised countries will shortly receive a report on the Russian economy that could be considered at a special summit on Russia and other trouble zones in the world economy.

At a meeting in London yesterday, senior G7 and international financial officials were addressed by Russian officials, who stressed the country should be judged by its acts, rather than its political composition. Western diplomats said this appeared to be an appeal not to take fright at the appearance of veterans of the Soviet system in the new government.

The Russian deputy foreign minister, Georgy Mamedov, told reporters after briefing the G7 officials that a team of IMF experts was likely to visit Moscow later this week.

The meeting was intended to "share analysis and reach a common appreciation" of Russia's economic plight", a British government official said yesterday.

The western officials will also prepare a report on the subject for G7 leaders. Tony Blair, the British prime minister who is currently chairing the G7, is today expected to brief President Yeltsin.

Mr Blair's office said the G7 would decide in the next fortnight whether to call a special summit on Russia and other world financial problems. The decision would be made in the light of the G7 officials' report.

Discussions of Russia in the margins of other international meetings by G7 foreign ministers in New York on September 24 and G7 finance ministers in Washington on October 3 will also be taken into account.

The British official said the Russian statement at yesterday's meeting was "considered useful and significant", "because the west is looking for indications that economic transformation will continue in Russia".

However, the same official also indicated that the west was not preparing any extraordinary new rescue package for Russia. "If the reform programme is a good one, we are ready through the normal ways to help it."

TIRANA CLASHES GOVERNMENT SPOKESMAN HINTS AT NEED FOR NEW FOREIGN INTERVENTION

Premier claims coup as Albanian mobs erupt

By Guy Dinmore in Belgrade

Albania's prime minister, Fatos Nano, went into hiding yesterday, claiming a coup was being organised by opposition mobs in Tirana. Supporters of the former president, Sali Berisha, commandeered tanks and seized a broadcasting centre, plunging the capital into violence for a second day.

The government denied reports that the prime minister had resigned. "He considers this a coup d'état," said his spokesman. "He is not going to resign."

He said Mr Nano had been in contact with foreign leaders and had told them the situation was intolerable. The spokesman added: "I do not exclude interventions like last year."

An Italian-led multinational force helped to restore calm after months of anarchy last year caused by the collapse of fraudulent pyramid investment schemes which Mr Berisha had allowed to flourish while he was president.

In an appeal for calm earlier, Mr Nano said: "I call on everyone not to allow anyone to bring back the chaos of last year, to hijack Albania and all of us with it."

The riots came a day after Mr Berisha's supporters, infuriated by the assassination of Azem Hajdari, a leading member of his Democratic party, had set fire to the prime minister's office in a wave of violence that left at least one dead.

In the civil uprising that exploded across Albania last year army arsenals were looted of hundreds of thousands of weapons and more than 2,000 people died.

Mr Berisha's Democratic party was heavily defeated by Mr Nano's Socialists in elections that followed.

The Organisation for Security and Co-operation in Europe (OSCE), which has been mediating between the two parties, blamed the latest violence on a minority of hardliners and said there was no comparison with last year's unrest.

The OSCE was pressing Mr Berisha to call off the armed mob, which was roaming the streets in cars as well as several tanks and armoured personnel carriers seized from the army.

Rumours that Berisha supporters were planning a coup had been circulating in Tirana for several weeks. The spark for the current violence came on Saturday night when unidentified gunmen killed Mr Hajdari and his two bodyguards. Mr Berisha blamed the deaths on Mr Nano and called on the prime minister to resign.

Yesterday large crowds gathered for the funeral of the three men in Tirana's main Skanderbeg square. Addressing the rally, Mr Berisha again accused Mr Nano of being behind Mr Hajdari's death but called for a day of peace in his honour.

Demonstrators then carried the three coffins to the prime minister's office where gunfire erupted, apparently from guards inside.

Mr Hajdari had been a fiery student leader who played a leading role in Albania's anti-communist revolution in 1991. He came from Tropoje, the same northern town as Mr Berisha, and had galvanised opposition among the tight-knit clans there against Mr Nano, a southerner.

Mr Hajdari also had ties to ethnic Albanian rebels fighting for independence in Serbia's Kosovo province, just across the mountains from northern Albania. Yesterday in Tirana demonstrators chanted "UCK", the Albanian acronym for the Kosovo Liberation Army.

The international organisations administering intensive care to Albania since last year have credited Mr Nano with restoring a degree of stability and economic revival to Europe's poorest country. A recent World Bank report warned, however, of the weakness of state institutions. It concluded: "Even without a full-fledged international conflict or border war, the situation in Kosovo is already aggravating the precarious internal security situation in Albania."

An influx of nearly 20,000 refugees into Albania from Kosovo has added to the crisis.

Under intense US pressure Mr Nano has opposed the rebels' goal of an independent Kosovo or a "Greater Albania". But his attempts to soothe nationalist passions have given Mr Berisha the opening to relaunch his political ambitions.

Anti-government demonstrators parade through Tirana yesterday riding a captured tank AP

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1990=100.

UNITED STATES	Exports	Visible trade balance	Current account balance	Ecu exch rate	Effective exch. rate
1987	220.2	-131.8	-145.6	1.1541	107.8
1988	272 5	-100.2	-108.4	1.1833	100.5
1989	330.2	-99.3	-94.5	1.1017	104.9
1990	309.0	-79.3	-72.1	1.2745	100.0
1991	340.5	-53.5	-4.6	1.2391	98.5
1992	345.9	-65.2	-43.5	1.2957	96.5
1993	397.3	-98.7	-73.6	1.1705	99.5
1994	432.3	-127.0	-104.4	1.1857	97.6
1995	452.3	-122.8	-89.2	1.2928	91.8
1996	499.0	-135.9	-107.7	1.2526	96.6
1997	609.4	-160.5	-137.2	1.1309	104.4
3rd qtr.1997	160.8	-40.0	-35.0	1.0893	105.1
4th qtr.1997	157.0	-41.5	-40.6	1.1245	106.4
1st qtr.1998	159.6	-47.9	-43.0	1.0874	109.1
2nd qtr.1998	151.5	-55.8	-51.3	1.1020	110.8
September	53 3	-14.1	n.a.	1.0974	105.7
October	53.2	-13.4	n.a.	1.1191	104.9
November	50.9	-13.7	n.a.	1.1421	105.8
December	52.9	-14.4	n.a.	1.1122	108.3
January 1998	53.8	-14.6	n.a.	1.0873	109.6
February	52.5	-15.7	n.a.	1.0892	108.4
March	53 5	-17.6	n.a.	1.0857	109.1
April	51.2	-18.6	n.a.	1.0937	109.7
May	50.0	-19.4	n.a.	1.1102	110.2
June	50 4	-17.8	n.a.	1.1022	112.3
July				1.0992	113.0
August				1.1028	114.8

JAPAN	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	194.7	83.7	72.8	168.58	104.7
1988	218.7	79.8	67.8	151.51	115.9
1989	245.5	70.6	60.1	151.87	110.8
1990	220.0	50.0	36.2	183.94	99.9
1991	249.4	77.7	59.2	166.44	108.4
1992	256.6	95.2	83.5	164.05	113.6
1993	300.3	118.6	110.8	130.31	136.5
1994	325 0	121.3	110.0	120.99	147.0
1995	331.1	102.8	87.7	121.43	154.4
1996	320.1	67.4	53.9	136.24	134.0
1997	361.8	89.2	83.3	136.84	126.1
3rd qtr.1997	96.8	25.2	24.0	128.47	131.1
4th qtr.1997	89.8	25.1	25.1	140 91	122.2
1st qtr.1998	89.0	27.4	26.6	139.32	121.2
2nd qtr.1998	83.2	28.3	25.4	149.56	114.3
September	31.3	8.0	8.0	132.58	127.6
October	31.4	9.0	9.2	135.36	126.6
November	29.2	8.4	8.0	143.21	121.4
December	29.2	7.7	7 9	144.17	118.7
January 1998	30.4	8.2	7.8	140.80	120.0
February	29.8	10.5	11.2	137.00	123.4
March	28.8	8.7	7.6	140.17	120.5
April	27.9	8.9	5.8	144.28	117.8
May	27.9	10.6	10.0	149.80	114.5
June	27.5	8.8	9.5	154.60	110.6
July				154.66	110.5
August				159.70	107.5

GERMANY	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	*254.4*	*56.8*	*40.6*	*2.0710*	*97.3*
1988	*272.6*	*61.4*	*42.4*	*2.0739*	*96.6*
1989	310.1	65.1	51.5	2.0681	95.9
1990	324.6	51.5	38.4	2.0537	100.0
1991	327.6	11.1	-14.4	2.0480	99.2
1992	330.9	16.6	-14.8	2.0187	102.1
1993	325.2	30.4	-12.0	1.9337	106.1
1994	360.2	37.2	-17.1	1.9198	106.4
1995	405.0	46.0	-17.5	1.8509	111.9
1996	418.6	52.1	-11.0	1.8844	108.9
1997	454.3	59.4	-3.5	1.9584	103.9
3rd qtr.1997	117.5	16.4	-3.4	1.9672	102.3
4th qtr.1997	116.7	15.2	2.9	1.9740	103.3
1st qtr.1998	119.5	16.7	-3.2	1.9777	102.7
2nd qtr.1998	122.0	18.6	3.4	1.9756	103.7
September	40.6	7.2	1.4	1.9618	103.0
October	38.8	4.4	-2.7	1.9655	103.3
November	39.2	5.3	0.5	1.9784	103.5
December	38.7	5.5	5.1	1.9781	103.2
January 1998	40.2	4.2	-6 8	1.9743	102.9
February	39.8	5.8	-0.2	1.9746	102.7
March	39.5	6.6	3.9	1.9835	102.5
April	41 9	6.6	1.1	1.9816	103.0
May	39.9	7.1	0.7	1.9697	104.1
June	40.2	4.9	1.6	1.9754	104.1
July				1.9758	104.2
August				1.9724	104.7

FRANCE	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch rate
1987	128.3	-4.6	-3.7	6.9265	98.9
1988	141.9	-4.7	-3.4	7.0354	96.9
1989	162.9	-6.3	-3.6	7.0169	96.0
1990	170.1	-7.2	-7.2	6.9202	100.0
1991	175.4	-4.2	-4.8	6.9643	98.3
1992	182.5	4.5	2.3	6.8420	101.5
1993	179.6	13.3	8.0	6.6281	105.0
1994	198.9	12.6	5.4	6.5658	106.1
1995	219.7	10.4	8.4	6.4460	109.2
1996	230.2	13.8	16.4	6.4068	109.1
1997	255.6	27.1	35.1	6.5925	105.6
3rd qtr.1997	66.2	7.6	8.4	6.6261	104.2
4th qtr.1997	67.1	7.3	9.8	6.6134	105.6
1st qtr.1998	67.4	6.2	8.2	6.6273	105.0
2nd qtr.1998	67.6	6.4	8.2	6.6238	105.7
September	22.6	2.8	2.8	6.5940	104.9
October	23.0	3.0	4.9	6.5939	105.5
November	21.5	1.9	2.0	6.6246	105.6
December	22.6	2.5	2.8	6.6219	105.5
January 1998	22.4	2.3	2.7	6.6137	105.2
February	22.6	2.0	3.5	6.6189	105.0
March	22.4	1.9	2.0	6.6493	104.6
April	22.5	2.2	3.2	6.6428	105.1
May	22.5	2.0	3.4	6.6051	106.1
June	22.5	2.3	1.7	6.6235	105.9
July				6.6243	108.0
August				6.6123	108.4

ITALY	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	101.0	-7.7	-1.9	1494.3	100.9
1988	108.3	-6.9	-5.4	1536.8	97.6
1989	127.8	-11.3	-10 7	1509.2	98.5
1990	133.6	-9.3	-12.9	1523.2	100.0
1991	137.0	-10.5	-19.2	1531.3	98.6
1992	137.9	-8.0	-22.6	1591.5	95.5
1993	144.9	18.1	8.7	1836.7	80.4
1994	161.4	18.8	12.0	1908.6	76.9
1995	181.0	21.6	20.7	2106.4	69.3
1996	201.3	35.0	32.8	1932.1	76.7
1997	209.2	27.2	32.5	1924.0	76.3
3rd qtr.1997	52.5	8.8	10.4	1918.8	76.0
4th qtr.1997	55.6	6.5	8.4	1934.6	76.1
1st qtr.1998	52.4	3.2	2.4	1949.6	75.3
2nd qtr.1998	56.9	6.9	4.2	1948.7	75.7
September	18.2	0.6	1.1	1914.8	76.2
October	20.6	3.1	3.3	1925.4	76.2
November	17.9	2.0	2.5	1938.4	76.2
December	17.2	1.4	2.6	1939.8	75.9
January 1998	14.4	0.0	-2.0	1943.7	75.4
February	17.8	0.9	1.4	1948.7	75.2
March	20.4	2.2	3.0	1953.3	75.2
April	18.6	1.5	-2.1	1957.6	75.2
May	18.7	2.8	-2.8	1942.6	76.0
June	19.6	2.6	9.1	1946.2	76.0
July			-1.4	1948.1	76.0
August				1946.0	76.2

UNITED KINGDOM	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	112.3	-16.4	-6.8	0.7047	99.4
1988	120.9	-32.3	-24.8	0.6643	105.4
1989	137.0	-36.7	-33.3	0.6728	102.3
1990	142.3	-26.3	-26.2	0.7150	100.0
1991	147.7	-14.7	-11.4	0.7002	100.7
1992	149.9	-17.8	-13.8	0.7359	96.9
1993	156.0	-17.3	-13.2	0.7780	89.0
1994	174.1	-14.4	-2.1	0.7736	89.2
1995	186.9	-14.1	-4.5	0.8190	84.8
1996	208.0	-15.6	-2.3	0.8026	86.3
1997	246.4	-18.8	6.5	0.6906	100.5
3rd qtr.1997	64.1	-4.2	2.0	0.6705	102.5
4th qtr.1997	63.0	-6.2	0.0	0.6772	103.0
1st qtr.1998	61.3	-7.1	-4.9	0.6606	105.4
2nd qtr.1998	61.1	-7.0		0.6665	105.4
September	20.6	-1.9	n.a.	0.6852	100.4
October	20.8	-2.0	n.a.	0.6653	101.1
November	20.3	-2.3	n.a.	0.6762	103.8
December	21.9	-1.9	n.a.	0.6701	104.4
January 1998	20.3	-1.6	n.a.	0.6648	104.6
February	20.2	-3.2	n.a.	0.6638	104.7
March	20.8	-2.4	n.a.	0.6532	106.8
April	20.8	-2.1	n.a.	0.6536	107.1
May	19.7	-2.8	n.a.	0.6783	103.4
June	20.6	-2.2	n.a.	0.6783	105.4
July				0.6686	105.3
August				0.6757	104.6

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Sweden's Left names price

By Greg McIvor and Tim Burt in Stockholm

Sweden's ex-communist Left party, buoyed by a surge in support ahead of Sunday's general election, has indicated it will demand 100,000 new public sector jobs and slower national debt repayments as its price for supporting a minority Social Democratic government.

The ruling Social Democrat party, already without a majority in parliament, is braced for a sharp drop in support, leaving it dependent on one or more smaller opposition parties.

Gudrun Schyman, Left party leader, said she "took it for granted" that Göran Persson, the SDP prime minister, would open negotiations with the Left over an alliance in the Riksdag (parliament) after the election.

Polls suggest the Left party will gain 12-14 per cent of the vote, almost doubling its support from four years ago and making it comfortably the third largest party.

Mr Persson has previously kept his distance from the former communists, fearing that reliance on leftwing parties would rattle financial markets. However, the Centre party, which has shored up the SDP's minority government for the last four years, has lost popularity and is cool to the prospect of continued co-operation.

Ms Schyman, calling for a four-year co-operation pact between the Left and the Social Democrats, said she would demand slower repayment of the national debt to pay for job creation programmes. "One hundred thousand jobs have disappeared from the public sector since the beginning of the 1990s and these should be reinstated."

Alf Svensson, leader of the Christian Democrats, said a SDP-Left alliance would be "dangerous for Sweden", warning it could undermine international confidence in the economy.

Mr Svensson hopes to form a non-socialist centre-right government with the Moderate, Centre and Liberal parties. Opinion polls indicate this bloc could win up to 45 per cent of votes while the Social Democrats and the Left together would achieve almost 50 per cent.

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NEWS DIGEST

MEDICAL APPROVAL

EU expected to approve sale of Viagra

Viagra, the anti-impotence drug, is expected to be cleared for sale in the European Union today, clearing the way for it to be on pharmacy shelves within weeks.

Martin Bangemann, EU industry commissioner, is due to sign the marketing authorisation after a six-month approval procedure, at the European Parliament in Strasbourg today, allowing EU consumers access to the drug for the first time.

The drug, developed by Pfizer of the US, was approved by the EU's standing committee on medicines – made up of member states' representatives – three weeks ago. But the committee demanded certain additions to the European instructions for the drug, including warnings that it could cause "prolonged and painful" sexual arousal, and that a doctor should be consulted if this lasted for more than four hours.

While the drug has been available in the US since March, and has proved one of the fastest-selling medicines in history, would-be EU users have previously had to resort to sales on the internet, or visits to non-EU countries Andorra and Switzerland where the drug is already available. **Neil Buckley, Brussels**

BOSNIAN ELECTIONS

Serb rivals claim victory

Moderate Bosnian Serb parties and rival nationalists both claimed victory yesterday in elections held last weekend that are considered vital by the international community for the future of the peace process.

The ultra-nationalist Radical party and their allies, the Serb Democratic party (SDS), claimed they had won in all three contests in the Serb-controlled half of Bosnia – for the presidency, the assembly and its representative on the three-man collective Bosnian presidency.

The western-backed coalition led by President Biljana Plavsic and her prime minister, Milorad Dodik, disputed the claims.

A spokesman for the Organisation for Security and Co-operation in Europe, which organised the elections, said it was impossible to have remotely accurate results at this stage. The OSCE expects to release partial results late today. Diplomats were still confident that Mrs Plavsic, who started to co-operate with western governments a year ago, would defeat Nikola Poplasen, the Radical party leader.

Sarajevo newspapers in the Moslem-Croat federation that makes up the other half of Bosnia said the nationalist Moslem coalition headed by President Alija Izetbegovic had, as expected, retained power but had lost ground to the more moderate opposition. **Guy Dinmore, Belgrade**

NORWEGIAN PREMIER

Bondevik needs more time

Kjell Magne Bondevik, Norway's ailing prime minister, has announced that he will need another 12 days to recover from a depressive reaction to overwork.

Mr Bondevik's absence since August 31 has so far sparked remarkably little concern or market volatility and the news continued to be received calmly. Anne Enger Lahnstein, the culture minister, will continue to lead the centrist minority coalition government in Mr Bondevik's absence.

Markets had expected Mr Bondevik to take another week to recover, said Inge Furre, chief economist at Pareto Fonds in Oslo. The situation could become more charged, however, if Mr Bondevik does not return to work on September 24 as scheduled. **Valeria Skold, Oslo**

POLISH POLITICS

Sell-off 'on schedule'

Poland's privatisation programme for this year will go ahead as planned despite a recent falls on the Warsaw bourse, the finance minister has confirmed. The government is proposing a 25 per cent stake in Telekomunikacja Polska SA, the national telecoms operator this autumn.

"We don't have any reason to revise the TP SA sell off schedule," Leszek Balcerowicz said. "The Polish economy is in incomparably better shape than Russia's and a mere 8 per cent of our exports go there."

However, he said, Poland would pay more attention to maintaining "the right fiscal policies, budgetary discipline and speedy privatisation" because of the Russian crisis. **Christopher Bobinski, Warsaw**

CZECH BUDGET

Premier plans a deficit

The new Czech government has announced plans to run a budget deficit next year, as figures released yesterday showed the economy entering recession for the first time since 1993.

The prime minister, Milos Zeman, whose minority Social Democrat government took office in July, said: "It is our obligation to put an end to a restrictive policy which did not work and, on the contrary, caused a crisis."

Opposition parties warned that they would oppose the budget and refuse to support increases in social insurance contributions and consumption taxes. Without such increases, the the budget deficit would rise beyond even the expected 1.5 per cent of GDP.

The central bank has warned that an expansive fiscal policy might force it to halt its gradual lowering of interest rates. It said yesterday that the proposed deficit had surpassed its expectations.

The government also plans to use off-budget borrowing to finance further spending on housing and infrastructure to help kick-start the economy. Hurt by the country's currency crisis in spring last year, second quarter GDP fell by 2.4 per cent year on year, after a decline of 0.9 per cent in the first quarter. **Robert Anderson, Prague**

SWISSAIR DISASTER

$1.5m Picasso lost in crash

A Picasso painting, diamonds and banknotes went down with the Swissair jet that crashed into the Atlantic Ocean off Nova Scotia this month, the airline said on Monday.

Pablo Picasso's *"Le Peintre"* (The Painter), with a declared worth of $1.5m, was in the ill-fated MD-11 jet's cargo hold when it plunged into the sea off Peggy's Cove on its way to Geneva from New York, killing all 229 people on board.

A spokesman said Swissair, part of SAirGroup, was still trying to determine the painting's owner.

The jet's special container for valuables held 59kg (130lb) of merchandise and packaging, including 49.8kg of banknotes, 1kg of diamonds, 2kg of watches and 4.8kg of jewels. Swissair said: "It should be assumed that the valuables container did not remain undamaged in the crash." **Reuters, Zurich**

Schröder dismisses poor result in Bavaria

German elections

By Ralph Atkins in Bonn

Gerhard Schröder, the Social Democrat chancellor candidate, sought yesterday to turn Germany's election on September 27 into a straight fight with Helmut Kohl, brushing aside his party's unexpectedly poor results in Sunday's Bavarian state elections.

Mr Schröder, who blamed local factors for the Bavarian poll, said voters had a choice of further four years of Mr Kohl or himself as an "unspent" chancellor candidate offering better solutions to Germany's high unemployment.

He challenged Mr Kohl, chancellor for 16 years, to a televised debate.

The SPD's share of the vote in Bavaria fell from 30 per cent in 1994 to 28.7 per cent.

The Greens, likely allies in government with the SPD, also dropped, from 6.1 per cent to 5.7 per cent.

In contrast, the state's Christian Social Union – which in Bonn is part of Chancellor Helmut Kohl's ruling coalition – increased its share of the vote by 0.1 percentage points to 52.9 per cent.

With the SPD result falling significantly short of prior projections by opinion pollsters, the Bavarian election has left September 27's outcome far from certain. In national opinion polls the SPD has a lead of up to six percentage points.

Although clearly deflated by the Bavarian result, Mr Schröder said: "The SPD has every chance of being the strongest party in parliament. The Bavarian election doesn't change that at all – because it was a state election."

The SPD vote in Bavaria fell from 30 per cent in 1994 to 28.7 per cent

He reiterated his goal of winning "40 per cent plus" support on September 27.

An upbeat Mr Kohl yesterday described Sunday's result as a boost for his Christian Democratic Union.

"It was a state election with clear federal political aspects," he insisted. Voters had rejected a possible Social Democrat/Green government.

But Mr Kohl's cheer was marred by the disastrous performance of the market-orientated Free Democratic Party, junior member of the Bonn coalition, in Sunday's poll. FDP support dropped from 2.8 per cent to 1.7 per cent.

The SPD also pointed out that the Bavarian result reflected strong support for Edmund Stoiber, the state's CSU prime minister.

Oskar Lafontaine, the SPD's national chairman, argued his party had difficulties mobilising support when it was clear a change of government in the state was not possible.

Like the CSU in Bavaria, it could benefit from a "winners' upswing" in the last stage of the federal campaign.

Mr Schröder said the Bavarian election was "already part of history". He set as central themes for the last 12 days of the campaign his policies for combating unemployment, removing injustices in the country's complex tax system, and the revival of economic prospects in eastern Germany.

● The German government should not pay compensation to former Nazi-era slave labourers but could provide logistical support to set up a nationwide fund, Mr Schröder said yesterday.

The Social Democrat politician had been believed to favour government contributions to a national fund for prisoners who were forced to work in German factories during the second world war.

Several of Germany's leading companies who used forced labour have said they would pay compensation but only as part of a government-backed fund.

EUROPEAN CENTRAL BANK ARGUMENT GOES ON OVER WHETHER MONETARY OR INFLATION TARGETING SHOULD GAIN PROMINENCE

Experts ponder their monetary strategy

ECB watch

By Wolfgang Münchau in Frankfurt

The European Central Bank admitted last week that the search for a monetary policy strategy had proved more difficult than previously thought.

It was widely assumed the ECB would copy the Bundesbank's monetarist approach with only cosmetic changes. This outcome is no longer certain.

In July, Wim Duisenberg, the ECB president, said the strategy would be in place by this month. But the discussions have stalled and will not be resolved until the end of the year. What happened?

The ECB is caught in a power battle behind two conflicting schools of thought: monetary targeting versus inflation targeting.

A central bank that uses monetary targeting controls the amount of money in the economy to seek price stability.

A central bank that has adopted inflation targeting aims to meet an inflation target with the help of a forecast.

The argument between the two is one of the most controversial issues in monetary economics today.

It was previously assumed that the ECB would opt for a mix of the two approaches, with monetary targeting the more dominant of the two.

The ECB's difficulties suggest that inflation targeting might be a stronger element of the new strategy than previously thought.

Wim Duisenberg, ECB president: said strategy would be in place by this month, but issue will not be resolved until the end of the year

Economic indicators for euro-11 countries

	Jul 1998	Jun 1998	May 98	Apr 98	Mar 98	Feb 98	1997	1996
Inflation (annual % change)†	1.4	1.4	1.4	1.4	1.2	1.2	1.8**	2.2**
Unemployment (%)	11.1	11.2	11.3	11.3	11.3	11.4	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	n/a	67.5	71.3	63.3	756.8	687.7
Imports	n/a	n/a	n/a	60.0	63.5	58.1	668.3	594.2
Trade balance	n/a	n/a	n/a	7.4	7.8	6.2	90.2	73.5
	Feb-Apr/Nov-Jan	Jan-Mar/Oct-Dec	Dec-Feb/Sep-Nov	Nov-Jan/Aug-Oct	1997	1996		
Industrial production (%) (3 mo over previous 3 mo)	1.1	1.1	1.1	1.0	4.1††	[illegible]		
GDP growth (%)	Q1 1998	Q4 1997	Q3 1997	Q2 1997	1997	1996		
Over same quarter last year	3.6	3.1	2.7	2.9	2.5	1.6		

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones †† annual % change. Source: Reuters

A monetary targeting policy relies on the quality of monetary data. But nobody knows how good these will be for a currency without a track record.

Inflation targeting appears attractive if only because it uses far more data, which would reduce the risk of misleading statistics.

There is no conclusive evidence to suggest that one approach is always more effective than the other. Monetary targeting has succeeded in some countries, such as Germany, but failed in others, such as the UK and Canada.

One of the reasons it failed in the UK was the pace of financial market deregulation in the 1980s, which substantially altered the behaviour of investors and savers.

The demand for money became unstable. It also became impossible to calculate the future rate of inflation on the basis of today's money data.

How stable will money demand be in the euro-zone? Nobody knows. European monetary officials are no longer as confident about this as they were even a few months ago.

Mr Duisenberg acknowledged that the transition from national currencies to the euro could itself distort the demand for money.

And then there are longer-term threats on the horizon, such as the advent of electronic money.

Most countries that adopted inflation targeting did so only after monetary targeting had failed.

If European policymakers express doubts about the stability of money demand in the future euro zone, the days of monetary targeting could be numbered.

This means the ECB would turn out to be a very different central bank from the Bundesbank after all.

KOSOVO COMMISSIONER SEEKS ULTIMATUM

EU 'must step up pressure on Milosevic'

By Michael Smith in Brussels

The European Union is being pressed by its commissioner for eastern Europe to adopt tougher policies on the crisis in Kosovo, amid concern in Brussels that the EU is attracting international scorn through lack of decisive action.

Hans van den Broek has told foreign ministers the response by the international community and the EU on Kosovo has failed to yield tangible results. He said the EU should consider making a "clear ultimatum" to Slobodan Milosevic, Yugoslav president, over his conduct in Kosovo.

Disclosure of his advice follows an attack by the US envoy to the Balkans on the EU for "fiddling while Kosovo burns". There is also a row between EU member states over a ban on flights by JAT, the Yugoslav air carrier.

The UK and Greece have been strongly criticised by Germany and other governments and by the European Commission president, Jacques Santer, for allowing JAT flights to continue for 12 months and six months respectively for legal reasons.

At a meeting in Salzburg, Austria, last week, EU foreign ministers warned of an impending humanitarian catastrophe in Kosovo affecting hundreds of thousands as winter approaches but side-stepped the commissioner's pleas for more decisive action.

Before the meeting, Mr van den Broek questioned in a confidential letter to foreign ministers, obtained by the Financial Times, whether "the time has come for the EU to make a clear ultimatum to President Milosevic to stop military operations [in Kosovo], thereby paving the way for negotiations".

He also suggested taking a more independent line from the so-called Contact Group of six nations – the US, Russia, the UK, France, Germany and Italy – which is co-ordinating international reaction but has failed to reach consensus on the need for military intervention amid Russian opposition.

"Is it compatible with vital EU interests that we accept that vital EU interests are seriously affected by lack of consensus in the Contact Group?" he wrote.

Mr van den Broek's letter was couched in diplomatic language and did not elaborate in detail on what he thinks should be done.

Response by international community and EU 'has failed to yield results'

However, one option being floated in his directorate is that the EU should press the United Nations Security Council for a resolution on the use of force as a sanction against Mr Milosevic.

Some Commission officials believe fear of rejection should not stop the EU from trying to get a resolution. "It would add to the pressure on Milosevic and would give us more credibility to conduct future policy," said one.

Foreign affairs ministers argue a UN resolution would inevitably be defeated because of Russian opposition.

They concentrated discussions at last week's meeting on existing policies of economic sanctions and channelling humanitarian aid to refugees. They also agreed to appoint an EU special representative for Kosovo.

EXPORT REGULATIONS WASHINGTON DEMANDS FUMIGATION OF WOODEN CRATES

Tree-eating beetle saps US-China relations

By James Kynge in Beijing

Beijing yesterday harshly criticised the US over American demands that China treat or fumigate wooden crates used for exports against infestation by the Asian longhorned beetle, which kills trees.

The US demand, to take effect in 90 days, could increase the cost of exporting to the US. Between 28 and 51 per cent of China's exports to the US – $62.7bn last year – could be affected by the regulation, according to the US embassy in Beijing.

The ministry of foreign trade and economic co-operation said the US regulation would "severely affect normal Sino-US trade and damage bilateral economic co-operation".

The ministry said China reserved the right to further reactions, hinting at possible trade reprisals. Beijing has already this year claimed that US companies are dumping newsprint in China.

Last week, China showed signs of getting tougher on imports as domestic growth slows, announcing a temporary ban on petrol and diesel imports from September 20.

US experts believe the Asian longhorned beetle, a large black insect with white spots, has "hitchhiked" to America from China in packing cases. Once there, and free from any known US predator, they bore into trees, causing a heavy flow of sap from the wounds. Especially threatened are maples and horse chestnuts.

China is thought to be a particular exit point for the pests because its shippers often tried to circumvent packing regulations that prohibit wood with bark by turning the bark to the inside of the crate, the US embassy said. The beetles often live between the bark and the wood.

But Chinese officials are suspicious of such complaints. "We hope quarantine experts from both sides will conduct sincere, effective co-operation and seek appropriate resolutions to safeguard the development of bilateral trade," the ministry said.

The new regulation requires shippers to have an official certificate guaranteeing treatment of the packaging, or a document that guarantees the packaging is wood-free.

Infestations of Asian longhorned beetles have been found in more than 20 US warehouses since January. But US authorities decided to impose the current restrictions when the beetle was found in forests and orchards around Chicago.

UN agency to make fresh cut in patent fees

By Frances Williams in Geneva

The World Intellectual Property Organisation (Wipo), embarrassed by its hefty financial surplus, is cutting fees for registering international patents for the second time in a year and taking steps to balance its budget in the future.

Wipo's annual meeting, which ends today, has agreed to use SFr7m ($5m) of the United Nations agency's SFr16.4m surplus for the 1998-99 biennium to finance a patent fee reduction. The remainder will be used to fund several new projects, including a study on trademark protection and internet addresses, and more help for developing countries to improve intellectual property protection.

After two years of controversy, Wipo's 171 member governments have also given the go-ahead for a prestigious second headquarters building on an adjoining site in Geneva, as well as a new conference room, at a total cost of up to SFr95m.

This and some other building and computerisation projects will be financed from Wipo's reserves of some SFr330m, the result of accumulated surpluses over many years.

Kamil Idris, Wipo's new director general, who took office in late 1997, is proposing to limit future surpluses to no more than 1 per cent of the biennial budget, currently SFr400m.

Wipo receives the bulk of its funds from burgeoning international patent fees. Registrations have surged six-fold in the past decade, topping 54,420 last year.

The latest fee reduction, effective from January 1999, will give companies a SFr200 discount for electronic filing and reduce the maximum initial filing fee from SFr1,650 to SFr1,500, a total reduction of up to 15 per cent. This follows an earlier cut of 15 per cent last January.

Separately, Wipo is reducing fees for registering industrial designs by 20 per cent to pass on savings from electronic publication. Government contributions to Wipo are also being cut from January next year.

Earlier plans for a second Wipo headquarters building were shelved after objections from the US.

Brittan bid to revive plan for US partnership

By Neil Buckley in Brussels

Sir Leon Brittan, European Union trade commissioner, will this week try to relaunch his drive for further liberalising trade between the EU and the US, after earlier ambitious plans were blocked by France.

The Commission is expected to adopt tomorrow an "action plan" to create a new Transatlantic Economic Partnership. The proposals – which must be approved by EU states – include a rolling programme of negotiations aimed at tackling trade barriers and developing co-operation with the US.

The plan is the successor to the so-called New Transatlantic Marketplace, approved by the Commission in March. That aimed to create an EU-US free trade area in many types of services, and eliminate tariffs on industrial goods by 2010.

But France, which mistrusted Sir Leon's assurances that sensitive areas such as agricultural subsidies and audio-visual trade could be kept out of transatlantic talks, effectively vetoed the plan and barred it from being discussed at an EU-US summit in May. French President Jacques Chirac and prime minister Lionel Jospin publicly attacked the plan, accusing Sir Leon of going behind the back of EU states in discussing it with Washington.

Sir Leon told the Centre for European Policy Studies, the Brussels thinktank, yesterday criticism of the NTM had been "intemperate and unreasonable".

He insisted the new plans were "not the same initiative by another name".

"Significant amendments have been made," he added. "The Transatlantic Economic Partnership proposes a rolling agenda for co-operation and negotiations rather than a single big bang agreement."

The draft plan, he said, contained both multilateral and bilateral elements.

On a bilateral level, the EU and US would aim to remove regulatory barriers. One idea was to set up an "early warning system," including meetings of scientists from both sides, to avoid the disputes over food safety and biotechnology that have recently dogged transatlantic relations.

Mutual recognition agreements and co-operation between regulators would be extended. The EU and US would also work together on issues due to be part of the next round of multilateral trade talks.

Pakistan pressed on cotton exports

By Farhan Bokhari in Multan

Pakistan's commerce ministry has called a meeting of cotton businesses and farmers in Islamabad today amid mounting pressures to relax restrictions on cotton exports.

Analysts say the government's decision could eventually influence the international market, if Pakistani cotton exports grow over the next few months.

Pakistan's cotton market has been speculating that the government is about to remove a quota which allows exports of only 200,000 bales, each weighing 375lbs, between now and January.

Mr Jehangir Tarin, chairman of the Punjab provinces' task force on agriculture, added his voice to the farmers' demand when he said he favoured lifting the quota. "The Punjab agriculture department's view is that it [exports] should be free" from controls. The Punjab's views are important in the formulation of Pakistan's cotton policy. Almost 80 per cent of the crop is grown there, while the remainder mainly grows in the southern province of Sindh.

Mr Tarin's remarks followed the government's latest assessment this week, which suggests that Pakistan's cotton output this year could be as high as 10.8m bales, or 19 per cent higher than its output of 9.1m bales, last year.

That assessment has intensified demands from farmers who want a more liberal export policy so that prices of raw cotton rise in the domestic market. Mr Abrar Khakwani, a cotton grower outside Multan, said: "There should be no restrictions on exports. If farmers get higher returns this year, more money would go into next year's plantations."

However, sceptics warned that Pakistan's powerful textile industry could still wield its considerable influence, and force the government to only allow a modest relaxation of export quota. Many textile businesses have traditionally opposed a lifting of quota on the grounds that the price of raw cotton would rise sharply.

Some analysts also warn that it may still be too early to predict an exact estimate for the crop size.

In recent years, Pakistani scientists have found that the crop is vulnerable to unexpected weather changes right up to the peak harvest time, which begins next month.

Last year, heavy rainfall just days before cotton picking caused considerable damage and forced officials to lower their output estimates by up to 20 per cent.

Israeli business sets up shop in Georgia

By Selina Williams in Tbilisi

When Ron Fuchs, an Israeli businessman, first came to Georgia in December 1991 on an invitation from the former president, he found himself holed up in the main hotel in Tbilisi, the capital, dodging bullets from a battle outside. His would-be host had recently been ousted in a coup that left the parliament building, the main hotel and a portion of Tbilisi's centre a smoking ruin.

But like many other Israelis who come to do business in this former Soviet republic in the Caucasus, Mr Fuchs was not deterred by a little bit of shooting and the occasional coup. He returned a few months later to set up Seaways N.V., a petroleum trading company that now controls 40 per cent of the downstream gasoline market in Georgia.

"We weren't afraid of the mess here or the danger – we saw the potential here and for us it has paid off," Mr Fuchs said.

The result of the readiness of Mr Fuchs and many of his compatriots to take risks in Georgia is that Israeli companies now represent the largest foreign investment in the country with projects ranging from small trading deals to larger private investments.

Telerad, the Israeli telecommunication group, has installed five new exchanges in Georgia and an Israeli businessman won the tender last year for Rustavi metallurgical plant – the largest factory in the country. About 30 per cent of products on sale in Tbilisi's new supermarkets are Israeli products ranging from Dead Sea cosmetics to orange juice and biscuits brought over by shuttle traders on the weekly two-hour flight from Tel Aviv.

Even Georgia's only fast food chain, the falafel-selling Pita Hut, is Israeli.

Although official investment figures are small – only $18m for Israeli registered companies – experts say the figure is probably much larger and is hidden by the fact that many of the companies registered in the Virgin Islands and the Netherlands are really run by Israelis wanting to avoid double taxation.

"The investment figures seem low but they are partly due to the black economy and partly due to the issue of double taxation – but that is likely to be resolved soon," said Ran Gidor, first secretary at the Israeli embassy.

Georgia's special relationship with Israel goes back to the 1970s when the large community of Georgian Jews, which dates back to the 6th century BC, spearheaded the movement to emigrate to Israel. The movement was later espoused by the rest of the Soviet Union.

Many of the Israeli businessmen in Georgia are members of the 80,000-strong Georgian Jewish community now living in Israel. The rest have become acquainted with the country through Israel's Georgian Jews and have often worked in co-operation with them in setting up business deals in Georgia. Their language skills, knowledge of the country and contacts proved indispensable when early western European investors showed caution about doing business in Georgia.

The Caucasus region as a whole is strategically important to Israel and is often viewed as the back yard of the Middle East. The potential oil boom in Azerbaijan is of great interest to Israel which has a lack of its own natural resources and wants to diversify its suppliers of oil and gas.

UN agency to make fresh cut in patent fees

p in Georgia

The Iraqi National Assembly yesterday voting unanimously to recommend that the Iraqi leadership suspend the activities of UN weapons inspectors Reuters

Iraq 'walking away' from sanctions review

By Tim Burt in Stockholm

Richard Butler, head of the United Nations commission charged with dismantling Iraq's weapons of mass destruction, yesterday accused Baghdad of "walking away" from a possible review of UN sanctions against the country.

Mr Butler said Iraq's refusal to co-operate with Unscom, the UN weapons inspectorate, would severely delay completion of the long-running international investigation into its chemical and biological weapons capabilities.

"The UN Security Council has spoken of a comprehensive review of relations with Iraq, but that will not take place until Iraq complies with UN resolutions to destroy weapons of mass destruction," he added.

Mr Butler was speaking following yesterday's decision by Iraq's national assembly to reject international demands that Unscom be allowed to resume weapons inspections.

He was in Stockholm to discuss the worsening situation with senior diplomats in Sweden, which holds the presidency of the UN Security Council.

Mr Butler said Unscom still did not have a "full account" of Iraq's missile production capability or warhead materials. "We also need an account of their VX production, which is the most deadly nerve agent known to chemistry," he added.

If Iraq complied with UN resolutions on weapons of mass destruction, Mr Butler hinted that the commission could complete its work on chemical weapons and missiles in about four months.

However, he warned that investigations into the country's biological weapons capability could take far longer.

"The biological programme is in bad shape. We need to start again and they need to give us a full account of what substances they made."

Mr Butler, who yesterday had three hours of talks with the Swedish cabinet secretary, Jan Eliasson, played down reports of frustration within Unscom over an alleged softening in attitudes towards Iraq by some members of the Security Council.

He emphasised that the Security Council had voted unanimously last week to suspend the possible review of sanctions until Iraq resumed work with Unscom.

"I have not seen any weakening in the resolve of the security council members that Iraq must comply with the law," he added.

Algerian leader runs out of room for manoeuvre

Faced with social and political pressures on all sides, Zeroual's position had become untenable, writes Roula Khalaf

The events that led to the effective resignation of Liamine Zeroual, Algeria's president last week were, like most important decisions in Algerian politics, shrouded in secrecy.

Mr Zeroual said he would step down by next February and hold early presidential elections in which he would not run. His aim was to reinforce the democratic course he had set for Algeria on his election in 1995.

Few Algerian observers, however, believe his move was not the result of intense infighting among the higher echelons of the Algerian army, or that the next president could be elected without the support of a military-dominated establishment.

The reasons behind Mr Zeroual's decision and whether he was pushed out will be debated for weeks and months. What seems certain is that, over the past year, his room for manoeuvre had become increasingly limited. Be it privatisation or a response to increased outside pressure for improvements in human rights, the government'sefforts stalled and in some cases, were reversed.

Faced with the dashed hopes of the electorate, deteriorating living conditions, threats from the unions and attacks on his key aides from within the military-political establishment, Mr Zeroual's position had become untenable.

Perhaps the clearest indication of a serious power struggle started to become apparent in June, when Mohammed Betchine, the president's closest adviser, was subjected to a ruthless media campaign which tarnished the image of the presidency.

But some of the tension could also have been due to a dispute over how to deal with the truce declared last October by the armed wing of the Islamic Salvation Front (FIS), the party that had been set to win the 1992 legislative elections cancelled by the army.

Mr Betchine had started negotiating the truce, before the brief was taken over last year by the army and military security. A year later, the truce has yet to translate into an easing of political tensions in what, once again, shows a stalemate in decision-making.

Mr Zeroual's departure has been as much of a shock to Algerians as to the outside world. Western governments had been betting on him re-establishing at least a semblance of democratic rule that would justify continued support for the regime.

It was after Mr Zeroual's election in 1995, in a poll deemed credible by most observers, that the US put an end to its informal contacts with the FIS. Western governments turned a blind eye to the accusations of massive fraud which followed the 1997 legislative and municipal elections.

Domestic and foreign investors will be looking for signs of cohesion within the regime

Mr Zeroual's election had reassured western oil and gas companies that Algeria was on its way towards normalisation, encouraging large investment in the sector.

With human rights organisations mounting effective campaigns in the past year, companies had been looking for signs of action on the human rights front which they hoped Mr Zeroual might deliver.

The only consolation for western governments today is that Mr Zeroual's departure next February will not come as the result of an open coup, but by the electoral process.

Whether elections will be an expression of what Algerians want or can help resolve the country's seven-year crisis, is uncertain. Only yesterday, a massacre of 27 people was an ugly reminder of the persistent bloodshed that has cost more than 65,000 lives since 1992.

Given the magnitude of Algeria's social and economic problems, the military establishment has an interest in averting a social explosion and reviving hopes inside and outside Algeria of an end to the killings by shadowy extremist groups.

As a recent report by a big European bank pointed out, the climate of lower oil prices and Algeria's continued and virtual total dependence on revenues from the sector leave it vulnerable to the prospect of another rescheduling of its massive debt in coming years. This is despite success in stabilising public finances under an International Monetary Fund programme and the $8bn in foreign exchange reserves that have been accumulated.

Most important for Algeria is the acceleration of growth to contain a 28 per cent unemployment rate. The necessary investment, however, still awaits an improvement in security. With Mr Zeroual's decision to step down, both domestic and foreign investors will be looking for signs of cohesion within the regime.

Many Algerian observers are remain sceptical that, given the Zeroual experience, the regime can agree on a credible candidate to succeed him, and if so, give him the powers to implement reforms.

A former senior official says: "The question is whether Zeroual's resignation was the result of a need to bring the regime out of an impasse, or whether it is their usual way of trying to buy time and divert attention away from the country's real problems."

NEWS DIGEST

IRAN-AFGHAN STAND-OFF

Khamenei warns Taliban of danger of conflict

Ayatollah Ali Khamenei, Iran's supreme leader, warned the Afghan Taliban movement and Pakistan yesterday that their actions in Afghanistan could provoke a big regional conflict.

"I have... so far prevented the lighting of a fire in this region which would be hard to extinguish. But all should know that a very great and wide danger is quite near," Ayatollah Khamenei said in a statement on Tehran radio.

Ayatollah Khamenei, commander-in-chief of Iran's 500,000-strong armed forces, said such a danger could "only be prevented by forcing Pakistan's army to stop intervening in Afghanistan and obliging the leaders of the Taliban group to submit to logic, to abandon actions which lead to a catastrophe and to make up for their past errors."

Shia Moslem Iran has built up its forces on the Afghan border to around 70,000 in a face-off with the Sunni Taliban over nine Iranian diplomats killed by the purist Islamic militia's fighters in the Afghan town of Mazar-i-Sharif.

The Islamic republic's supreme leader called on Moslem states to prevent reprisal killings of Shias of Afghanistan's Hazara tribe by the Taliban after Sunday's capture of the provincial capital of Bamyan, stronghold of the Iran-backed Shia opposition. **Reuters, Tehran**

ZIMBABWE

Donors decline land funding

The Zimbabwe government may be forced to rethink its policy on land redistribution after donors attending a three-day conference made clear they were not prepared to fund the programme.

When the conference ended last Friday, ministers said they would implement a two-year programme to resettle 1m hectares, well short of their earlier commitment to resettle 150,000 people over five years on 5m hectares.

Their hope is that the two-year "pilot programme" will win donor support and unlock funding for a larger and more ambitious scheme thereafter.

With ministers having promised peasant farmers that land will would be available for resettlement before the 1998-99 rains start in November, the government will is bound to come under pressure from grass roots supporters and militants to expedite its programme.

Tony Hawkins, Harare

UZBEK-ISRAEL TIES

Bid to expand commerce

Islam Karimov, president of Uzbekistan, began his first visit to Israel yesterday, hoping to expand his largely Moslem country's commercial ties with the Jewish state.

Mr Karimov will sign deals on taxes, trade and co-operation in public health and agriculture, an Israeli statement said. He will attend a business seminar with leaders of more than 100 companies and visit factories during the three-day visit. Trade in 1997 between Israel and the Central Asian state of 23m people was tiny at $20m.

Mr Karimov's tough stance on Islamic fundamentalism has already struck a chord with his Israeli hosts.

Prime Minister Benjamin Netanyahu elicited agreement for Mr Karimov to make the trip in May when the Israeli leader stopped in Tashkent on his way home from China.

Some 120,000 of the 145,000 Jews who were living in Uzbekistan at the end of Soviet rule have left, about 70,000 of them for Israel. **Reuters, Jerusalem**

WORLD ECONOMY GLOBAL LEADERS ANXIOUS TO MAKE FINANCIAL SYSTEM MORE RESILIENT TO FURTHER SHOCKS

Biggest challenge in 50 years, says Clinton

By Richard Waters in New York

President Bill Clinton sought to assert US leadership amid the gathering storm in international financial markets yesterday with a call for a high-level international meeting to find ways to make the world's financial system more resilient to shocks in the future.

Mr Clinton also added his voice to warnings that the world economy faced its most serious challenge in 50 years.

While inflation had been the biggest threat to economic health for most of the past three decades, he said, "clearly the balance of risks has now shifted, with fully a quarter of the world's population" living in countries which were experiencing a sharp slowdown in economic growth.

He also added his support to recent warnings from Alan Greenspan, chairman of the Federal Reserve, that the US "cannot forever remain an oasis of prosperity" in a troubled world.

Addressing the Council on Foreign Relations in New York yesterday, Mr Clinton confined himself to a weighty policy speech that he said had been under consideration since the Mexican peso crisis of late 1994 first pointed up the risks posed by the free flow of capital around the world. He did not comment on his domestic problems.

The president used his platform to call for a meeting of finance ministers from the biggest industrialised and emerging economies within the next 30 days to suggest ways to damp instability in international financial markets. A report on the proposals should be produced by early next year.

"We must find a way to tap the energy of the world financial markets" without exposing countries that ran sound domestic economic policies to the extreme instability that had been evident over the past year.

At the same time, Mr Clinton suggested a number of initiatives that, taken together, would help in the short term to stem the financial contagion that had spread from Asia and now threatened Latin America.

Foremost among these was success by Japan in kick-starting its economy, an issue that remained central both to global economic growth and the health of ailing Asian nations.

The short-term measures would also include giving the International Monetary Fund power to use a $15bn reserve to help stem the financial contagion, particularly as it began to affect Latin America.

Mr Clinton called on the World Bank to extend a stronger social "safety net" to Asian countries; said he had asked Robert Rubin, Treasury secretary, to help accelerate the Asia private sector debt programme to help sound companies get back on their feet; and added that the US's Eximbank would look to support projects that could help to restore confidence and stability in Latin America.

In the longer term, he would continue to push for a further freeing of world trade with safeguards to protect ordinary workers and the environment.

"America can and must continue to act and to lead," Mr Clinton said, both to stop the financial contagion from spreading any further and to minimise the impact of the economic collapse in Asia.

WARNING BY FORMER NY FED CHIEF

Market turmoil 'threatens open economies'

By Stephen Fidler in Washington

A former head of the Federal Reserve Bank of New York said yesterday that turmoil in international financial markets presented a serious threat to market-oriented economies all over the world.

Gerald Corrigan, now a managing director with Goldman Sachs, said the financial turbulence constituted an important threat "to the cause of open and free political and economic institutions around the world". This challenged directly the national interests of the US.

Mr Corrigan was the first of a group of economists, academics and investment bankers speaking over three days of hearings about world economic turmoil to the House of Representatives banking committee.

The hearings culminate tomorrow with testimony from Alan Greenspan, chairman of the Federal Reserve Board, and Robert Rubin, US Treasury secretary.

Mr Corrigan's comments reflect what has, over the past two weeks, been a heightened level of concern about the consequences of the financial crisis that has spread from Asia to Russia and now threatens Latin America.

He described three elements that have characterised recent financial crises: troubled domestic financial systems and under-developed legal systems to deal with financial issues; large concentrations of short-term debt to either the public and private sectors or both; and an "understandable period of denial or paralysis" as the crisis strikes.

He said the key to a solution lay in protecting US growth, which – in the absence of a further worsening of the financial crisis should slip to its long-term trend of 2.5 per cent – and keeping European growth on track. This would place half of the world economy in "safe harbour".

However, the future for Japan, responsible for 20 per cent of global output, remained in doubt.

Barry Eichengreen, economics professor at the University of California, Berkeley, told the committee: "This may be the most dangerous international financial situation we have seen in a full 70 years", and suggested a change in the international approach towards the restructuring of international bond issues.

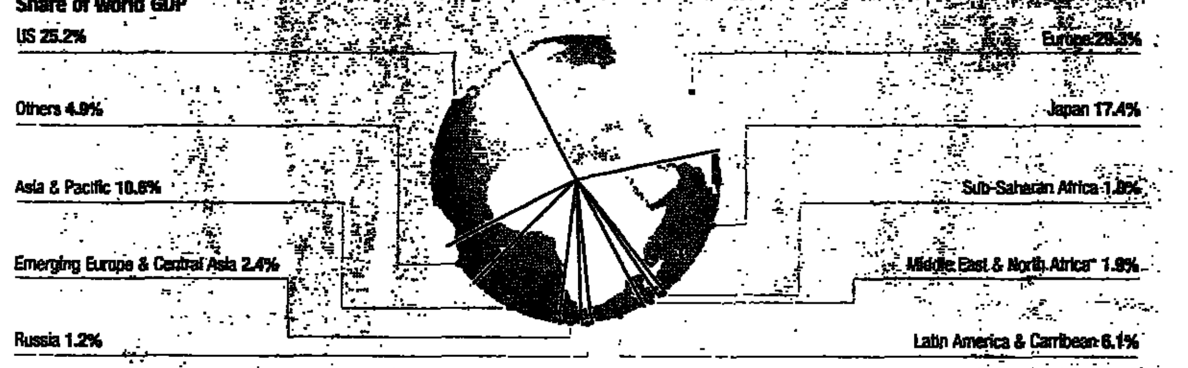
Most of the eight speakers yesterday emphasised the importance of the US fulfilling its commitments to the International Monetary Fund, though most agreed that some criticism of the IMF was valid.

Alan Blinder, a former vice-chairman of the Federal Reserve, who is now at Princeton University, said he shared many criticisms of the IMF – "especially its penchant for secrecy and its fascination with austerity. But you don't rebuild the fire-house while the town is burning – you send out what trucks you have." Reform, he said, could come later.

James Leach, the Republican who chairs the committee, said: "It is a dangerous time, requiring firm, bipartisan American leadership. The honour, prosperity and security of the US are at stake."

G8 leaders called on to save the day

World leaders at the last G8 summit in Birmingham



IMF MAY CHANGE STANCE

Capital curbs seen in more favourable light

By Stephen Fidler

Important signals emerged yesterday that economic policy-makers led by the International Monetary Fund are considering a shift in attitudes to controls on capital movements.

Until early this year, the IMF was leading an assault to dismantle obstacles to capital movements and it was already clear that it and leading members of the Group of Seven industrialised countries, including the US, was backing away from that position.

Now, it appears that international discussions about what is sometimes called the "new international financial architecture" may be moving towards the view that certain types of capital controls may be justified in some circumstances.

Speaking in Seoul yesterday, Hubert Neiss, the IMF's Asia-Pacific director, told a conference on the Asian financial that the deliberations about the desirable extent of these controls were still going on.

"My only prediction is that it will lead to some measures that will make it difficult for banks to run up short-term debts to foreigners," he was quoted as saying by Reuters.

He said this was likely to be done through a combination of prudential regulations and taxes on foreign exchange deposits. Mr Neiss declined to elaborate on what the controls would entail and where they would be implemented, saying the discussions were about controversial measures.

"It is important that [the controls] should not proliferate into general capital controls," Mr Neiss said. "They should act to prevent excesses and abuses."

The new controls would try "to protect countries from the over-volatility of short-term flows" of capital, he said, adding: "No final conclusion has been reached."

A growing interest in capital controls, such as the type Chile has imposed on inward movements of short-term capital, has emerged since the outbreak of the Asian financial crisis. It is now considered inappropriate by many economists that countries should open their capital accounts while their banking systems are underdeveloped and inadequately regulated.

The Chilean controls – essentially a tax which falls most heavily on shorter term capital inflows – have been widely praised for being transparent and reasonably well administered. Chile has no controls on capital outflows.

However, many economists still see capital controls as unsuitable for more developed markets, essentially a short-term policy option and ineffective when attempting to stem capital outflows.

Mr Neiss was also quoted as saying the IMF was keenly watching Malaysia's experiment with more sweeping capital controls. "This is an experiment that everybody will be carefully watching, and whether it succeeds over a short while or on an enduring basis."

"Experience has shown that bankers and businessmen have proven to be too clever about circumventing" such controls, when they have been applied elsewhere, he said. "It is not certain that Malaysia can insulate its economy," Mr Neiss said.

"Whilst you have these controls and you succeed in insulating interest and foreign exchange rates, whether you use this to push ahead with reforms is the question," he said.

NEW STRUCTURES SOUGHT STRAUSS-KAHN WANTS NEW BANK RULES AND LAFONTAINE BACKS THE SETTING OF CURRENCY TARGET ZONES

European calls for reform of global financial system

By David Owen in Paris and Ralph Atkins in Bonn

Two leaders of the European centre-left yesterday called for alterations to the global financial system in light of the turmoil in international markets.

Dominique Strauss-Kahn, the French finance and industry minister, reiterated French calls for a reinforcement of the international financial system partly through improved prudential rules for the banking and insurance sectors.

In Germany, Oskar Lafontaine, likely German finance minister if the opposition Social Democratic party (SPD) wins the September 27 election, expressed clear support for new structures aimed at increasing world currency stability. Mr Lafontaine backed ideas floated originally by Paul Volcker, former US Federal Reserve chairman, which Mr Lafontaine said would involve setting target zones for currencies.

The SPD chairman said the system would be modelled on Europe's former currency "snake", the 1970s forerunner to the European monetary system. Mr Lafontaine said the SPD had already discussed such plans with the French Socialist party. "We're convinced that this suggestion would introduce greater stability worldwide and therefore avoid adverse developments such as large numbers of job losses," Mr Lafontaine said.

Speaking in Paris, Mr Strauss-Kahn, a Socialist member of the French coalition government, said the present crises showed it was not easy to make the transition to a market economy. He likened attempts to do so by countries such as Thailand, South Korea and Russia as getting into a swimming-pool in which the water was too cold.

A more organised transition for such countries would be desirable, with attention given to transparency, information, prudential rules and system organisation. The rules of the game were no longer well adapted because the world had changed, he said.

His comments came after he told Europe 1 radio on Sunday that a new Bretton Woods was needed, since current rules governing the world financial system had become inappropriate. This was in reference to the Bretton Woods meetings in New Hampshire in 1944, which laid the basis for the post-war world financial system.

Mr Strauss-Kahn also said he would submit proposals on how the euro-zone should be represented outside Europe to a meeting of European Union finance ministers in Vienna later this month. Ways of treating the zone's relations with the outside world needed to be agreed, he indicated.

EU finance ministers and central bankers are due to meet in the Austrian capital between September 25 and 27.

The French finance minister said he thought western countries should be ready to continue helping Russia if it continued trying to implement reforms in areas such as tax collection and bank restructuring. But he said he would withhold judgment on Russia's new government until he saw its first actions.

Strauss-Kahn: transition to market economy not easy

هكذا من الاصل

Capital curbs seen in more favourable light

system

Polls show Clinton job rating unimpaired

By Nancy Dunne in Washington

The pounding President Bill Clinton took with the release of the Starr report – and its embarrassing sexually explicit disclosures – has damaged him much less in US opinion polls than many experts expected.

Six separate polls found the president's job approval rating virtually unimpaired.

A CBS survey found this rating as high as 67 per cent. At the least 59 per cent of those polled approved his job performance in a Washington Post poll.

However, Americans clearly disapprove of the president's behaviour and respect him less personally.

When the Washington Post asked 860 randomly selected adults at the weekend if they had a favourable or unfavourable impression of the president, only 50 per cent said favourable, down from 56 per cent last month.

Stephen Wayne, a government professor at Georgetown University in Washington, said he had expected a much larger dip in job approval ratings, and perhaps a rise in 10 days to two weeks after the shock of the Starr report had warn off.

"The polls indicate that [Kenneth] Starr did not make a convincing case that the charges are relevant," he said.

"This is not an objective report. Part of it is dictated by his own political views and at least part by his reaction at being the butt of so much criticism."

The inclusion of many salacious details in the Starr report may have backfired against the special prosecutor.

The Washington Post poll reported that 61 per cent of Americans thought there was too much unnecessary detail about sex, and 62 per cent professed themselves unsurprised by the findings.

Walter Burnham, a University of Texas professor, said that the public would ask why Mr Starr "went on and on" and say they should not need to disable their "a V-chips" [the device that blocks pornography on the internet] to read the report.

"It's very clear that Starr has the same attitude toward Clinton as did Captain Ahab toward the great white whale."

Most of the pollsters found that Americans want the president to remain in office – with a slap on the wrist.

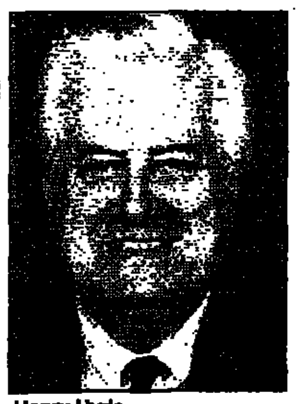
Two polls found about two-thirds of the American people against impeachment. But both CBS and Gallup reported a majority in favour of a congressional censure vote.

There is only one precedent for such a vote: President Andrew Jackson, the seventh president of the US, was censured by the Senate. In the next election, his party gained seats and voted to expunge the reprimand.

"The Republican leadership has been pretty circumspect in its statements because it wants to judge public reaction," said Mr Wayne. "And they all were taught, in church and synagogue that people in glass house shouldn't throw stones."

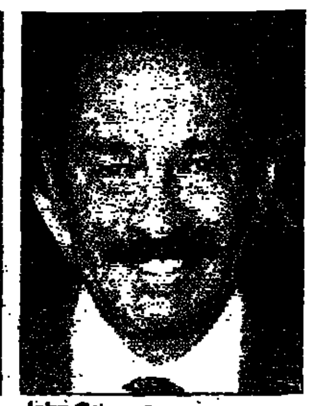
● Far from raising cries of moral outrage, the exposure of President Clinton's relationship with Monica Lewinsky is viewed by some of the more suspicious sections of Iranian public opinion as a plot to undermine the Islamic republic's recent overtures to the west, writes Mark Huband in Tehran.

"Monica [Lewinsky] has been produced now so as to harm Bill Clinton, because he is the first American president to try and make better ties with Iran," said an Iranian businessman. "It's because they want to harm Iran that they have decided to make the Lewinsky affair public now."


Henry Hyde


Howard Berman


Charles Canady


John Conyers


Bill McCollum


Frank D-Mass

HOUSE JUDICIARY COMMITTEE MEMBERS (ABOVE) MULL 18 BOXES OF EVIDENCE, A 2,000 PAGE APPENDIX, AND AUDIO AND VIDEO TAPES

President's fate in hands of the House

By Adrian Michaels and Richard Wolffe in Washington

Bill Clinton's future now rests in the hands of the House of Representatives, which is attempting to draw up a schedule for dealing with the Starr report under intense time pressure ahead of the mid-term elections in less than two months.

The pace of the Lewinsky scandal has been difficult to predict. Although pundits believed the president would be forced into making another public statement soon after his testimony to the grand jury, opinion was split on how long he would wait. In the end he went on television straight after he had finished testifying on August 17.

Similarly, the Starr report was not expected to be submitted to Congress until the end of this month, but turned up at least a week early. Within 48 hours it was all over the internet.

Now, with the drama unfolding on Capitol Hill, the timing of developments is also unclear. As the House judiciary committee mulls the report, 18 cardboard boxes of evidence, a 2,000-page appendix as well as audio and video tapes, it is not known exactly how or when congressmen will begin their inquiries into the findings of the report.

It is not known how or when congressmen will begin inquiries

The House has already agreed, in a vote last week, that the committee must determine by September 28 what parts of the remaining evidence can be released to the public.

The committee may decide on these issues more quickly, providing it can determine which parts to withhold to protect "innocent" individuals who are not directly involved in the allegations facing the president. Kenneth Starr, the independent counsel, has urged Congress to treat much of this unpublished material as "confidential".

Meanwhile, the White House is keen to review the full testimony of witnesses before the grand jury, in the belief that the Starr report was a one-sided version of the facts which can be refuted in a different reading of existing testimony.

Although the judiciary committee is sifting through the documents, its formal investigation has not yet begun into whether there are grounds for impeachment charges against President Bill Clinton.

Such investigations can only begin once the full House of Representatives votes on how to deal with the report, including taking witness statements, and issuing subpoenas. A debate of the procedural issues – which is itself likely to be a highly charged political skirmish – is expected tomorrow.

A further complication is the scheduled adjournment of the House on October 9. If the vote on the judiciary committee's recommendation has not taken place by then, House leaders could call back congressmen for a special vote. Alternatively, they could place the House in recess to return after the elections to vote on the judiciary committee's decisions.

A speedy resolution would favour everyone, since the Congressional elections are on November 3 and there is plenty of hard campaigning due between now and then. However, the judiciary committee is keen to proceed cautiously with regard for the due process of law, to avoid the impression of conducting its deliberations with indecent haste.

The White House believes report was a one-sided version of facts

If the judiciary committee decides to proceed with a full impeachment inquiry, and Representatives are hauled back from the stump to approve it, the probe is not expected to be finished by the end of the year. In this case a newly-elected House, comprising a new set of politicians, will have to vote to approve the decisions passed by the current congressmen.

Once these hurdles have been overcome, and assuming that the committee decides to draw up articles of impeachment, the full House would vote again on a bill of impeachment. A simple majority is required to move the process to the Senate. It is difficult to see that happening in the first three months of next year.

A Senate trial, with the chief justice of the Supreme Court as judge, the senators as jury and House members and their lawyers acting as prosecutors, would then take place next summer. Richard Nixon had had enough long before this stage, and it is possible that Mr Clinton and the American people will have too.

Canadian bank merger debate heats up

By Edward Alden in Toronto

The heated debate over the future of Canada's banking sector is set to heat up further today with the release of a long-anticipated federal task force report on the industry.

The report, the first of its kind in three decades, will make recommendations expected to weigh heavily on Paul Martin, the finance minister, as he must decide soon whether to approve the largest bank mergers in Canadian history.

Today's report, known as the McKay task force after its chairman Harold McKay, is not expected to offer definitive advice on the proposed mergers. Instead, it is likely to say that such mergers are acceptable in principle, but may not be essential in the near future. It is also expected to recommend a greater opening of the market to foreign competition.

Four of Canada's five largest banks announced merger plans earlier this year – the Royal Bank of Canada teaming up with the Bank of Montreal and the Canadian Imperial Bank of Commerce joining with the Toronto-Dominion Bank.

The surprise proposals, which must be approved by Ottawa, handed the Liberal government its most difficult decision of its current term in office.

The choice is not an easy one for Mr Martin. The merging banks argue that their proposed mergers are in response to similar ones in the US, the UK and Europe and that the failure of Canadian banks to react will weaken them in the face of growing international competition.

But opponents do not concede that argument. Scotiabank, Canada's fourth largest and the only one of the big five without a merger partner, has released a study arguing that the mergers would produce the most concentrated banking market in the industrialised world.

The two new banks would account for 66 per cent of Canada's domestic banking assets, the report said, compared with 26 per cent for the two largest US banks and 24 per cent in the UK. Even Switzerland and the Netherlands, similarly small countries with concentrated banking systems, were at 57 per cent and 40 per cent respectively.

"This is being sold as something that's normal internationally, when in fact that is not the case," said Warren Jestin, chief economist at Scotiabank.

In a second study, released at the weekend, Doug Peters, a former Liberal cabinet minister, urged Mr Martin to block the mergers. He and economist Arthur Donner warned that some 20,000 to 40,000 jobs would be lost through branch closures, and that reduced competition would increase service charges to customers.

The study also said that allowing two large banks to dominate the market would sharply increase the systemic risk should one fail.

The merging banks responded that significant competition from non-bank providers already existed in most product sectors, from credit cards to mutual funds and residential mortgages. Measured across all product lines, the two merged banks would have about 30 per cent of the total financial services market, they say.

Electronic banking and the opening of the Canadian market to foreign financial service companies promise even greater competition in the future, they say.

Industry analysts do not expect Mr Martin to endorse the recommendations of the McKay task force in their entirety. The debate will be overshadowed by a political battle pitting Liberal backbenchers, who mostly oppose the deal, against the lobbying muscle of the big banks.


Wallace: voiced fears of working class afraid of change AP

OBITUARY: GEORGE WALLACE

Symbol of old south in a time of change

George Corley Wallace, the former four-time governor of Alabama whose segregationist and populist rhetoric was a dark leitmotif of American politics in the 1960s and 1970s, has died aged 79.

He had been left paralysed below the waist by a would-be assassin's bullet in Laurel, Maryland, while campaigning for the Democratic party's presidential nomination in May 1972, but was re-elected governor two years later and served until his retirement in 1986.

Wallace was widely seen as a symbol of the old south even as the region was changing socially and economically. He continued, even in his final term in the state capital, Montgomery, to voice the fears of a working class disaffected with the federal government and disturbed by social change.

He first ran for governor in 1958 as a relative Democratic moderate on race, was beaten and promptly vowed, in his own words, "never to be outniggered again".

Victorious four years later, his state inaugural address in 1963 contained the following challenge to the policies and court rulings designed to produce a racially integrated society: "Let us rise to the call of freedom-loving blood that is in us, and send our answer to the tyranny that clanks its chains upon the south.

"In the name of the greatest people that have ever trod this earth, I draw the line in the dust and toss the gauntlet before the feet of tyranny, and I say, Segregation now! Segregation tomorrow! Segregation forever."

That same year, he made his notorious "stand in the schoolhouse door" and sought to prevent the admission of two black students to the University of Alabama.

He failed, as other southern governors have done before and since. He discovered in the process that – in matters of race – real authority in Alabama lay not with the governor but with the legendary federal judge, Frank Johnson, and with a civil rights movement energised and legitimised by the police violence inflicted on demonstrators in Birmingham and Selma in the 1960s.

Barred by state law from a second term in 1966, Wallace simply arranged that his first wife, Lurleen, be elected governor (she died of cancer two years later) and turned his attention to the national stage.

He had made a token run for the Democratic nomination in 1964, but in 1968 he formed his own American Independent party and became a force in the land, capitalising on the clear disarray in the party to which he owed nominal allegiance.

When the final votes were counted he had won five southern states and taken 14 per cent of the popular vote, exceptional for an independent candidate. Some pundits even thought his performance had denied the White House to Vice-president Hubert Humphrey, the Democratic nominee who was beaten by Richard Nixon.

In fact, Wallace merely underlined that the south was no longer a Democratic fiefdom, as first evidenced in Senator Barry Goldwater's regional success in carrying four states in the 1964 election against President Lyndon Johnson.

Yet the Wallace appeal in that year was deeper and more widespread. Blue-collar workers across the country – the predecessors of those later to be known as "Reagan Democrats" – loved his indictments of liberals, Communists, the courts, the media and those "pointy-headed bureaucrats who can't even park their bicycles straight". Ross Perot tapped a similar rich vein in the 1990s.

Wallace ran as a Democrat again in 1972 under the slogan "send them a message" and enjoyed some early primary successes before Arthur Bremer's bullets cut him down. He was also a candidate briefly again in 1976.

Thereafter his life was in Alabama where he became a more conventional governor, building schools and roads and seeking new investments. Ironically, in his final re-election in 1982, about one-third of the state's blacks voted for him.

He recanted somewhat in his later years. On the 20th anniversary of the stand in the schoolhouse door, he said: "We were wrong and we live in a new day". In 1978 he went to Martin Luther King's old church in Montgomery and told black ministers: "I regret my support of segregation and the pain it has caused the black people of our state and nation."

He took final consolation in being right before his time. "They all talking like me," he said in a 1994 interview. "Nixon, Reagan, Clinton. Welfare reform, crime, big government, taxes on the middle class. They all saying what I was saying then." Perhaps so, but the voice at its strongest was always dissonant.

Jurek Martin

Brazil struggles to plug heavy outflows of foreign capital

Markets have won a respite but the threat remains of a deeper economic crisis. **Geoff Dyer** and **Richard Lapper** report

Brazilian financial markets won a respite yesterday morning. However, investors continued to be highly nervous about the government's ability to stave off a deeper economic crisis.

Shares on the São Paulo stock exchange were 2.78 per cent higher early yesterday afternoon, after rising 4 per cent at one stage. The gains in stock markets in the US and Europe, together with hopes that the Group of Seven leading industrial nations' meeting in London might produce a package of emergency financial assistance for Latin America, helped the market.

However, investors were dismayed by the news that a further $1.7bn left the country through the foreign exchange market on Friday, bringing the total for this month so far to $12.7bn.

This was despite the rise in interest rates on Thursday night from 29.75 per cent to 49.75 per cent, the second rise in a week, and a 13.4 per cent jump in share prices during trading on Friday. But Economists did not rule out further heavy outflows.

With general elections only three weeks away, observers began to speculate about what further measures the government could take to prevent the heavy outflow of funds in the short-term.

The most likely option, economists believe, is the acceptance of a line of credit from the IMF or other international institutions to bolster reserves, which now stand at $51bn-$52bn.

The alternative would be a substantial fiscal package to reduce a budget deficit which was 7.8 per cent of GDP over the last 12 months, according to Marcelo Carvalho, economist at JP Morgan. After the first interest rate rise, the government outlined last week R$4bn (US$3.4bn) of new cuts. But Thursday night's rate rise will lead to further deterioration in the fiscal numbers.

"They need overwhelming measures. The more they try to wait and carry out the measures piecemeal, the more they will be seen to be less than the sum of their parts. If they come up with a big fiscal package, it will show the government is committed," said Standard & Poor's, the credit agency.


Fernando Henrique Cardoso: elections three weeks away but poll ratings seem unaffected by crisis AP

However, politically this would be difficult before an election, even though President Fernando Henrique Cardoso's poll ratings seem unaffected by the crisis.

One other source of relief for the government might come from the three privatisations scheduled for this week. While it would not be a surprise for any of them to be cancelled given market conditions, two privatisations – Gerasul, a power generator, and Bandeirantes, a distribution company – could attract foreign buyers and bring in much-needed capital.

"More importantly, it would be a strong sign of confidence in the management of the economy," said Mauro Schneider, economist at ING Barings in São Paulo.

Ecuador forced to devalue sucre

By Edward Barham in Quito and Agencies

Ecuador yesterday became the second Latin American country to devalue its currency in less than a month when it cut the value of the sucre by 15 per cent.

Colombia devalued its currency by 9 per cent under two weeks ago and there has been speculation that other countries in the region will follow suit as a result of turmoil in international financial markets.

Central bank officials said they were allowing the sucre to depreciate sharply against the dollar by weakening the upper and lower limits of the currency's trading band. The sucre's new lower limit was 6,740 per dollar and the upper limit was 5,833. The previous band was at 5,171/5,715.

Through Ecuador's crawling peg currency system introduced in 1994, the sucre is gradually depreciated in line with inflation but this move represented a one-off devaluation of a much larger scale than normal. Last year the currency's band was depreciated by 25 per cent.

Ecuador's economy has been struggling as a result of the fall in the price of oil, which generated 30 per cent of export revenues last year, and the El Niño weather phenomenon which has disrupted agricultural production. The move comes after heavy pressure against the sucre. Last week the central bank spent $90m to defend the currency and on Friday the inter-bank interest rate rose to 53 per cent.

Analysts said the devaluation was necessary to reactivate an economy expected to grow by less than 1 per cent this year, but said it could have been if avoided President Jamil Mahuad had moved to cut the 7 per cent of GDP fiscal deficit.

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The White House believes report was a one-sided version of facts

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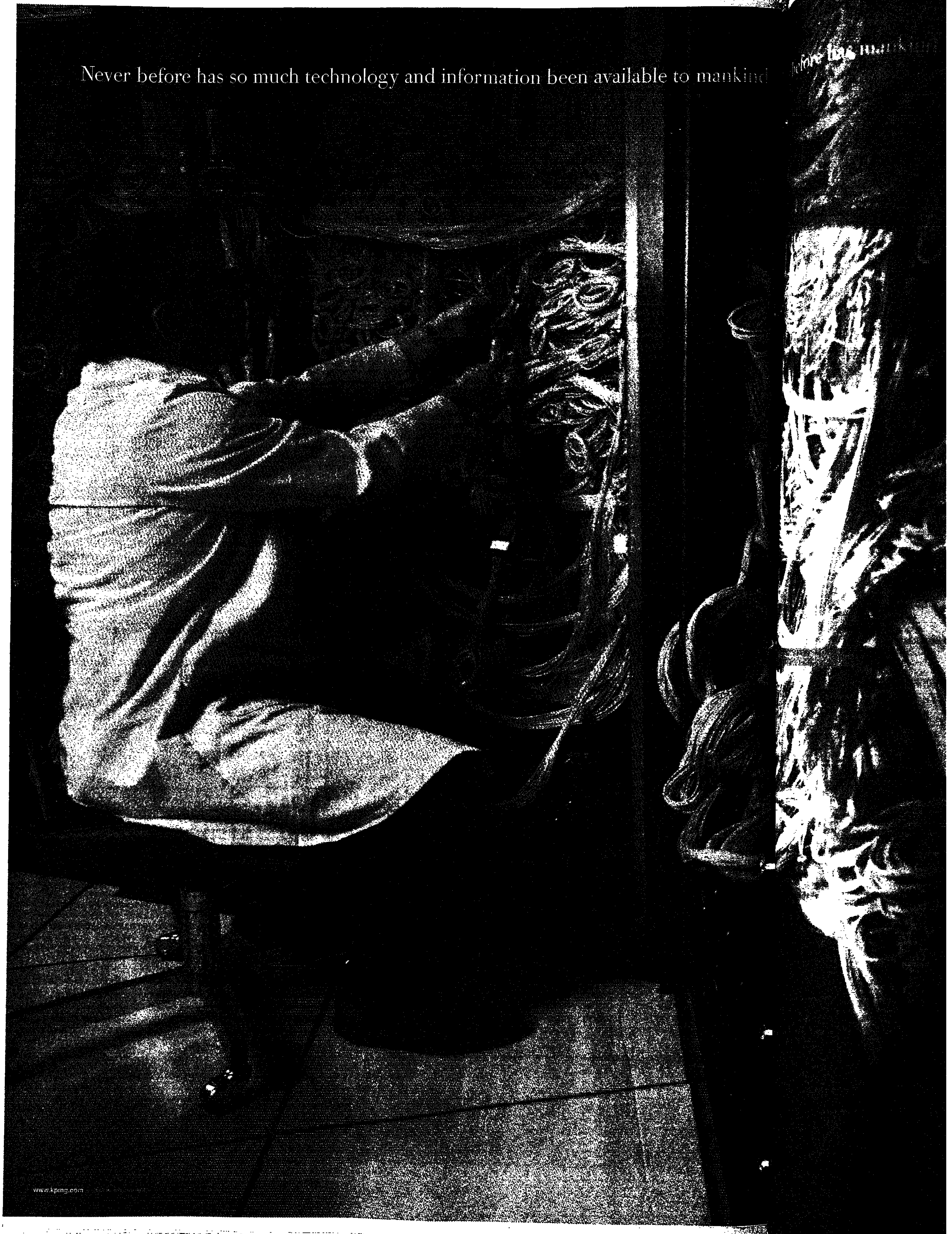
time of change

Ecuador forced to devalue sucre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PROFITS PLUNGE FLOORS SET ON SELECTION OF ITEMS IN MACHINE BUILDING SECTOR ☐ INDUSTRY ASSOCIATIONS MAY GET NEW POWERS

China imposes price curbs as deflation bites

By James Kynge in Beijing

China is to impose selective price controls in a retreat from free-market mechanisms aimed at shielding companies from cut-throat competition been exacerbated by 11 consecutive months of deflation.

The State Machine Building Industry Bureau (SMBIB), an organisation ranking just below ministry level, said yesterday that price floors were to be set for products such as passenger cars, computerised machine tools, three-wheel farm trucks, loading machines and power generators.

Officials said that the restrictions could be extended to include other products at a later date.

The controls are supposed to be "self-regulated", an official at the SMBIB said. The exact mechanism for supervision is still being decided but it is likely to involve giving industry associations greater powers, the official said.

There are about 180 industry associations but they lack the regulatory authority to intervene in markets.

"Enterprises must look at the big picture and set their prices at levels which will benefit the whole of the industry, rather than only themselves," said one SMBIB official, who declined to be identified.

He did not have details on what prices would be set for which items.

Deflation has become China's biggest economic problem. Corporate profits have plunged this year as price wars have broken out in many oversupplied sectors, including passenger vehicles, televisions, airline tickets, cigarettes, textiles and agricultural products, and alcoholic drinks.

In some cities, bottles of beer are selling for less than bottled water, the China Daily newspaper said.

The retail price index fell 3.3 per cent in August, the sharpest fall since the deflationary trend began in October last year. The decline came in spite of a significant increase in the price of rice because of widespread flooding.

The prices of many consumer goods was freed during the 1980s as an important step in the country's free-market reforms. Some prices, such as those for grain, water and freight transport, remain fixed.

Signs of a heavier regulatory touch have proliferated recently, with authorities announcing this week that all diesel and petrol imports are to be banned from Sunday.

Authorities also moved to ease another of China's economic problems – a slowdown in foreign investment inflows. China is to extend to foreign companies export tax rebates offered to domestic companies from January 1 next year, the official China Securities newspaper said.

China has raised tax rebates for local companies significantly this year, as a means to compensate for the enhanced competitive edge enjoyed by south-east Asian countries since their currencies have been devalued.

Japan warned that yen weakness would make it difficult to keep the renminbi stable

China warned Japan yesterday in their first bilateral meeting on the Asian financial crisis that a weak yen would make it more difficult to keep the renminbi stable, **James Kynge reports.**

"China repeated what it has always openly said about its concern that a weak yen will make it difficult to keep the yuan stable," a Japanese official, who declined to be identified, told journalists.

Chinese officials have refrained from making such remarks in public since before the visit of President Bill Clinton to China in June. Although their warnings then of pressure building against the renminbi probably helped prompt the US and Japan to intervene in support of the yen, such comments also run the risk of undermining domestic confidence in the Chinese currency.

The black-market price of renminbi is at its lowest levels this year as demand for foreign currency increases, driven in part by nervousness over the recent speculative attack on the *Hong Kong dollar*. The Chinese currency was at around RMB8.7 to RMB8.8 to the US dollar in Beijing's street-side black markets yesterday, compared to the official rate of RMB8.27.

The question of yen weakness dominated the one-day talks, but China's comments were "not harsh", the Japanese official said.

Chinese trade officials have in private heaped *criticism on Japan for* "selfishness" in doing little to stimulate domestic demand and support the yen. Some government economists, speaking before the meeting yesterday, said they suspected Tokyo of having a "weak yen" policy with which it hopes to export its way out of current problems.

China reiterated its stance against devaluing the renminbi and said it fully *supported the Hong Kong* administration's defence of the Hong Kong dollar peg to the US dollar.

Compromise on LTCB rejected

By Michiyo Nakamoto and Gillian Tett in Tokyo

Prospects for Japanese government plans to recapitalise the ailing Long Term Credit Bank (LTCB) of Japan and implement critical banking reform bills looked increasingly uncertain yesterday after opposition parties rejected a third compromise proposal from the ruling Liberal Democratic party.

The opposition flatly rejected the LDP's proposals on the grounds that they were "vague" and "hard to understand."

Eisei Ito, policy head of the Democratic Party of Japan, the leading opposition group, said "this is absolutely not enough," and indicated the new plan took the debate backwards rather than forward.

The political stand-off has raised the stakes for the Japanese government, which is under pressure from the US and the markets to implement legislation to deal with the ailing banking sector.

Yesterday's compromise proposal included a plan to scrap the Y13,000bn ($99bn) public fund earmarked to recapitalise ailing banks. The opposition has been particularly critical of this fund, which it says aims to support troubled banks that should be allowed to fail.

However, the *LDP would* scrap the fund only after an agreement is reached with the opposition on a framework for public assistance to support the banks.

Failure to reach a deal has also increased the heat on LTCB, which has suffered sharp declines in its share price due to growing market uncertainty over its fate.

Shares in LTCB plunged to a record low of Y19 yesterday, amid growing confusion about its future. Although they later recovered to close at Y38, *the fall, which was* the maximum permitted on the Tokyo stock exchange, left the shares trading well below their par value of Y50.

The LDP has been hoping to resolve the problems at LTCB by merging the group with Sumitomo Trust, another Japanese bank, and injecting a large amount of capital into the bank.

Last month LTCB, which insists it is solvent, announced a restructuring plan and government officials indicated that the bank was likely to get between Y500bn and Y1,000bn in public funds.

However, the plan has been rejected by the opposition, which argues that banks should be allowed to fail rather than be kept alive with public money. LTCB should be declared insolvent, opposition members say.

Analysts yesterday warned that the uncertainty over LTCB could further undermine confidence in the Japanese financial sector – particularly since the Bank of Japan has repeatedly warned that the insolvency *of a large bank* could cause serious disruption in global derivatives markets.

Jim McGinnis, analyst at Dresdner Kleinwort Benson said: "I think this [political row] is an interim step to nationalising LTCB."

Prefecture warns of likely deficit

The government of Kanagawa, a large Japanese prefecture which includes the city of Yokohama, yesterday warned that it was likely to have a large budget deficit next year unless it made big spending cuts, **Gillian Tett reports.**

In fiscal 1998 this deficit was likely to be around Y6bn ($46m), while in fiscal 1999 it could rise to around Y220bn, the local government body said in a statement.

The revelation marks an unusual step for local government in Japan, as regional governments have traditionally been very reluctant to reveal timely financial information. The move comes amid mounting evidence that local government in Japan is facing a growing cash squeeze.

Naoto Kan (left) and Keizo Obuchi: views on government plans for the rescue of ailing banks are diametrically opposed AP

Bank rescue deadlock freezes Japanese policy-making

Michiyo Nakamoto on heated debate over whether to inject taxpayers' money into LTCB

Debating financial policy is not a popular pastime in Japan.

But in the past few months, the question of whether troubled banks should be rescued with the use of taxpayer funds has gripped the Japanese public. It is being debated on news programmes, radio talk shows and in families' homes.

The issue, which has pitted the ruling Liberal Democratic party against an opposition alliance, has frozen all other political debate in the Diet and held up urgently needed government measures to revitalise the country's anaemic economy.

Until national consensus and a political compromise can be reached, government efforts to deal with the banking sector's problems, revive the economy and play a greater role in helping troubled neighbours from Indonesia to Russia, are unlikely to bear fruit.

The next few days will be critical for the Japanese government in coming up with an answer in time for the meeting between Keizo Obuchi, the prime minister, and Bill Clinton, the US president, next week.

However, opposition charges that the latest LDP compromise proposals submitted yesterday merely muddied the debate have raised the stakes substantially. If Japan cannot come up with a solution fast, not only would it be humiliating for the Japanese government, it could also lead to another damaging sell-off of shares and of the yen.

On the one side is the LDP, which insists recapitalising the country's large banks is crucial to staving off a global financial crisis.

It wants to release more than Y500bn ($3.8bn) of public funds to shore up the troubled Long Term Credit Bank of Japan, which has become a test case of the government's policies.

LDP and government officials have repeatedly warned of dire consequences should a large bank such as LTCB be allowed to fail. "Japanese companies rely to a greater extent on indirect financing than those in the US, so the failure of a bank has a greater impact on the economy," says one official.

Diametrically opposed to the LDP's views is the three-party opposition alliance, which insists public funds should not be used to save a failing institution. Furthermore, the opposition believes that LTCB is already insolvent, which would make it illegal to inject public funds into it.

Opposition leaders say that with measures in place to protect depositors and borrowers, as long as the Bank of Japan guarantees it will honour the commitments of a failed bank, there should be no problem in allowing even large banks to go under.

Last week, a compromise seemed to be in the works when Naoto Kan, charismatic leader of the Democratic Party of Japan, suggested that in some special cases public funds could be used to prop up ailing banks.

However, the idea of putting up taxpayers' money into banks is clearly unacceptable to most Japanese in the current economic climate. When Mr Kan seemed to be wavering, the Democratic party was bombarded with calls from angry supporters, points out Minoru Morita, a political analyst.

As public opinion has turned increasingly antagonistic towards the LDP plan, Mr Kan has adopted a more resolute stand against it.

"The LDP should decide to liquidate LTCB," he says.

Faced with an opposition that has become even more determined not to budge, the LDP has started to give in. There has been less confidence in claims that LTCB is solvent. Given the stand-off, "the final solution will be something very close to the opposition's proposals", believes Mr Morita.

There is a growing chance that desperation will even drive the LDP to swallow the opposition's proposals wholesale. "The LDP has to come up with something, even if it means digging its own grave," says Ryoji Musha, strategist at Deutsche Morgan Grenfell in Tokyo. "Otherwise Obuchi's credibility will plummet and he will have to step down."

But the crucial question is, whatever plan is adopted, will it lead to the kind of serious reform of the banking sector, including allowing troubled banks to collapse, that the opposition is demanding and that the markets are looking for?

The LDP can find ways to fudge the measures in their implementation so that ailing banks will somehow be allowed to survive with public money, Mr Musha points out. If that happens, the markets will take things into their own hands by selling shares in banks deemed unworthy of survival, as they have done with LTCB, he says.

At the same time, as the Mexican experience indicates, a solution that leaves the public unhappy with the outcome can drag on. While the Mexican government decided to convert $65bn of bad loans into public debt last year, it is still being debated in parliament.

All eyes are focused on a solution to Japan's political deadlock. But far from bringing relief, the outcome could very well be further uncertainty and turmoil ahead.

HK$ rate rumour prompts heavy selling

By Louise Lucas in Hong Kong

The Hong Kong dollar came under heavy selling pressure and interest rates rose sharply following reports that the *de facto* central bank was poised to change the exchange rate in the money markets.

This rate, which is marginally different from the fixed exchange rate offered by banks outside the money markets, was explicitly set at HK$7.75 to the US dollar less than two weeks ago. The fixed exchange rate is HK$7.8 to *the US dollar*.

Pressure subsided after the Hong Kong Monetary Authority (HKMA) denied the reports and further pledged to maintain the current rate for six months. Interbank interest rates also eased in the afternoon, although remaining higher than last week.

However, heavy Hong Kong dollar selling activity in the morning resulted in the day ending with a clearing deficit of over HK$7bn (US$900m), which compares with the more usual positive aggregate balance of around HK$1.8bn.

Interest rates rose sharply, with the benchmark three-month rate tipping 12 per cent and later falling back to 11 per cent. Both this and the squeeze on liquidity are in sharp contrast to the stability and lower interest rates the government has been endeavouring to engineer since early August.

It was as part of those measures that the government earlier this month made an explicit undertaking to convert Hong Kong dollars into US dollars at a rate of HK$7.75 to the US dollar. It indicated that this rate would be brought into line with the fixed exchange rate of HK$7.8 at a suitable time.

Reports that this change was about to be made triggered heavy selling of Hong Kong dollars by local banks and companies, eager *to obtain US dollars at the* prevailing lower cost. Meanwhile, few banks were prepared to sell US dollars at HK$7.75 if the HK$7.8 level was about to be introduced, so the HKMA was meeting almost all the sell orders.

However, traders said that with the HKMA's position clarified and with higher interest rates there would be sufficient US dollar selling today and tomorrow to enable banks to meet their obligations – the deficit – by Wednesday, when settlement is due.

Despite this, the HKMA came under attack for its delay in responding to the reports. The morning saw companies with US dollar exposure rushing to cover their positions. Andrew Fung, treasurer at Commonwealth Bank of Australia said. "We had a panic situation," he added.

Davy Kwan, senior vice-president at International Bank of Asia, said liquidity would flow back with the higher interest rates – which automatically rise with an outflow of funds under the currency board mechanism – but added that a lot of the jitters in the market could have been avoided if the HKMA had clarified its position sooner.

The HKMA said that in order to remove market uncertainties and to allow corporate treasurers sufficient time to change their hedging, the money *market rate of HK$7.75* would remain in place for at least six months.

Pakistan hit by sharp fall in exports

By Farhan Bokhari in Islamabad

Pakistan said last night that the value of its exports fell by almost 12 per cent in August compared with the same month last year, mainly because of sluggish demand and a fall in the value of key exports such as rice, cotton yarn and leather.

According to figures released by Hafeez Pasha, the prime minister's adviser on finance, exports in August declined to $606m from $692m in August last year.

Mr Pasha said "much of the decline could be attributed to falling unit values and lower quantities". He said almost two-thirds of the fall was the result of lower prices for Pakistani exports due to recent economic turmoil in other countries and about a third resulted from a fall in volume.

In other worrying signs, the remittances from expatriate Pakistanis last month could be either close to the level of $134m in July or "possibly less", he added.

Independent economists said the export figures suggested the Pakistani economy, which is faced with impending default on its foreign debt, might suffer from the consequences of falling exports. The government estimates it would need about $4.6bn during the current financial year to next June to meet the shortfall caused by western economic sanctions imposed after the country conducted nuclear tests in May.

Mr Pasha said, however, the latest signs suggested that the economy might be in trouble but not necessarily on the brink of default or collapse. Independent economists say Pakistan faces an immediate crunch at the end of this month when it is due to make foreign debt repayments of about $750m.

Mr Pasha said there was no danger of default later this month, however, without giving a breakdown of any new credits that Pakistan expects before then.

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HKS rate rumour prompts heavy selling

in exports

ECONOMIC CRIME INTERNATIONAL CONFERENCE HEARS PLEA FROM SENIOR LAW ENFORCEMENT OFFICIAL

Offshore concessions face US criticism

By Jimmy Burns in Cambridge

A leading US authority on financial law enforcement yesterday urged the elimination of differential treatment of offshore transactions.

"We should be moving towards an international system where offshore means the same as onshore," Jonathan Winer, deputy assistant secretary of state for international law enforcement, said at a conference in Cambridge, England. There should be "the same regulations, the same access to records, the same law enforcement."

Countries should eliminate the "tax evasion" loophole by adding tax evasion to the list of offences in national anti-money laundering laws and mutual legal assistance agreements should be amended to include tax offences, he said.

Mr Winer was speaking at an international conference on the prevention and control of economic crime, attended by senior law enforcement and government officials. He set out a detailed programme for governments to strengthen regulation and enforcement to ensure continuing safety and reliability now that wealth is represented increasingly by "electronic digits".

First, governments should ensure that internet service providers retained records of traffic for long enough to allow law enforcement agencies and regulators to reconstruct transactions.

Second, agencies should refuse to accept bank secrecy in cases involving financial crime and a black-list of unco-operative countries should be drawn up. Countries which do not allow international regulators access to financial records should have their transactions subjected to additional regulatory or enforcement reviews.

Third, global financial assistance by multilateral lenders such as the World Bank and International Monetary Fund should be withheld unless the recipient country acted against financial corruption. Regulatory systems needed to be sufficiently transparent to provide good warning signals when things are going wrong, whether in a single transaction or a national economy.

At their last meeting in Birmingham, England, in May this year, the leaders of the G8 nations warned that "there must be no safe havens either for criminals or for their money" and committed themselves to take vigorous action against the problem.

Mr Winer said that technical experts within the G8 were required to make progress on the issue by the next summit in Cologne, Germany, scheduled for next June.

Raymond Kelly, commissioner for the US Customs Service, warned of the increasing use of "cyberspace" by international organised crime groups for illegal money transfers. "We do not wish to frustrate the use of the legitimate e-cash or encryption but we do need to . . . combat this new threat of advanced systems of payment."

Trade union chief rages at boardroom 'greed'

By Andrew Bolger, Employment Correspondent

John Edmonds, president of the Trades Union Congress, yesterday attacked boardroom greed over pay and described the issue of executive pay as "the politics of the pig trough".

"A company director who takes a pay rise of £50,000 ($82,500) when the rest of the workforce is getting a few hundred is not part of some general trend," said Mr Edmonds, general secretary of the GMB general union. "He is a greedy bastard."

Mr Edmonds told the first day of the TUC conference, in the north-west England seaside resort of Blackpool, that a recent government call for pay restraint had "missed the target very badly" by suggesting everyone was getting large pay rises. He called on ministers not to blame workers but to "tell the truth" about what goes on in boardrooms.

To laughter and applause, Mr Edmonds said: "Executive pay is now the politics of the pig trough. We have little chance of creating a fair society unless we insist that people with great power act with a similar level of responsibility."

Mr Edmonds said hundreds of thousands of jobs were at risk in manufacturing from the policy of keeping interest rates high. "A better way of dampening demand would have been to raise taxes. But the political consensus is that income taxes cannot be increased." The reality was that British income taxes were the lowest in Europe and high interest rates were crushing industry.

"So we must have the courage to break this ill-founded consensus and tell people earning over £50,000 or £100,000 a year that they must pay higher taxes."

Mr Edmonds praised the Labour government's promises of improvements for working people and said now was the time to rebuild the union movement. "Of course, there have been disappointments. However, we have come out of darkness into sunlight – or at least into brightly dappled shade."

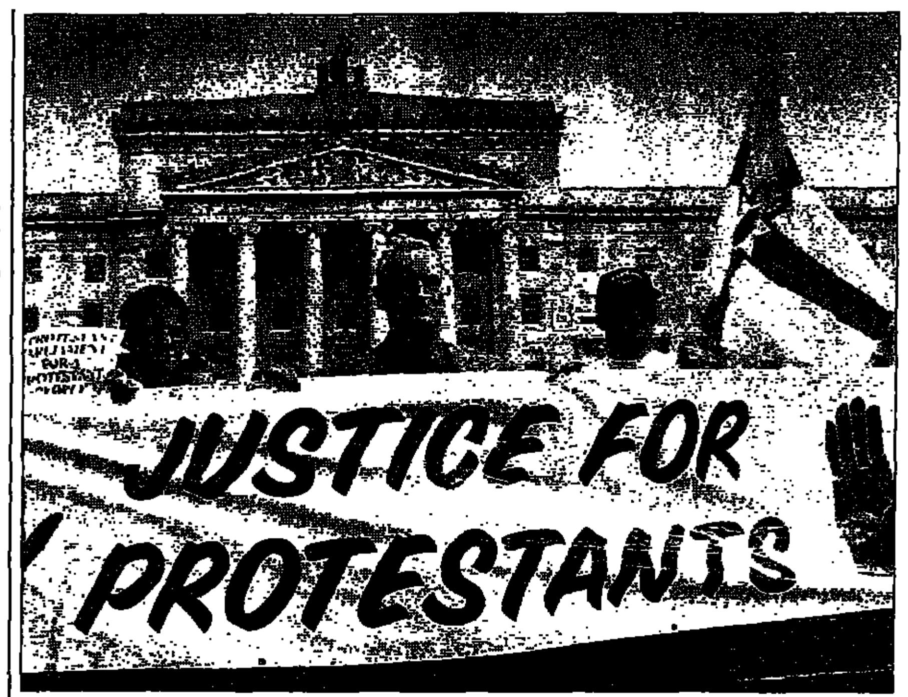
Mr Edmonds urged Tony Blair, the prime minister, to "shrug off the vestiges of a persistent Conservatism" and challenged the "widespread myth" that the years of Conservative government contained some good features which should be preserved.

"I include privatisation, which began with the claim that it would increase commercial freedom, and ended up with the energy industries in chaos and a bunch of water companies where there seem to almost as many bloated rodents in the boardroom as in the sewers."

He said the TUC would support the CWU postal union in resisting "any plan, or hint of a plan, for the privatisation of the Post Office".

Warning on job losses 'hype'

John Prescott, the deputy prime minister, yesterday warned the Trades Union Congress that everybody should "be careful not to hype or talk ourselves into increasing job losses or say we are within hours of collapsing into recession". While growth was slowing, this was so the country could "get back on track for steady and sustainable growth . . ". Earlier, David Blunkett, education and employment secretary, had accused trade union leaders of "hysteria". In his speech to the TUC today, Mr Blunkett is expected to take a tough position against union demands for lower interest rates.



Protests as NI assembly reopens

The Northern Ireland assembly should be a "pluralist parliament for a pluralist people", David Trimble, the region's first minister, said when the assembly re-opened yesterday, **writes John Murray Brown in Dublin.**

"We are in the fortunate position of struggling with democratic constitutional arrangements rather than struggling with the politics of the latest atrocity," Mr Trimble said.

But he repeated that Sinn Féin, the political wing of the Irish Republican Army, could not be allowed to take its seats in the proposed executive until the IRA started decommissioning its arms.

Some opponents of the peace agreement (pictured) protested outside the parliament building against the presence of nationalists in the assembly. Inside, John Hume, leader of the moderate nationalist Social Democratic and Labour party, said he was aware of the differences but warned that unless the new institutions were set up, "what this assembly will become is not just a talking shop about our past, but a shouting shop about our past".

The assembly, which will sit in shadow form until next February, has already seen differences emerge between unionists and nationalists over ministerial posts.

Hopes rise for end to EU ban on beef exports

By Michael Smith in Brussels

Nick Brown, the UK farm minister, said yesterday he was hopeful the European Union would lift its worldwide ban on UK beef exports by the end of the year.

His comments in Brussels follow a report by European veterinary experts giving a favourable view of the UK's meat slaughtering and inspection facilities. Britain was banned from exporting beef in March 1996 after scientists found a potential link between BSE, or "mad cow disease", and a similar illness affecting humans.

Mr Brown, in Brussels for talks with European Commission officials, said the UK had done everything asked of it by the EU to resume beef exports and he hoped for a favourable decision in October or soon after.

His comments reflect a growing view among EU agriculture officials that the UK has a strong chance of winning political support this year from fellow EU members for a "date-based" scheme which would allow exports of meat from cattle born after August 1996.

This would cover virtually all beef cattle in the UK, although exporters would also have to show that the mother of the animal had lived for more than six months after the birth and had not contracted BSE.

The export ban was eased earlier this year when the EU voted to allow the resumption of exports from Northern Ireland, where the history of individual cattle is computerised. The European Commission, the EU's executive, has supported a lifting of the ban for the rest of the UK for several months.

Some countries, particularly Germany, remain concerned about beef from Britain, which has suffered the highest rate of BSE of all European countries. Ireland, the Netherlands and Sweden have already signalled support for ending the ban. Since the issue can be settled by a simple majority among the 15 EU nations, Britain needs the backing of another four countries.

Separately, Mr Brown said the UK was pushing for the phasing out of EU milk quotas. He would not elaborate because Britain is preparing a detailed proposal with Denmark, Sweden and Italy.

NEWS DIGEST

BRITISH TELECOMMUNICATIONS

Charges 'six times higher than elsewhere in Europe'

Most European businesses pay far less than those in the UK for connection to the information superhighway, a survey has found. It shows that British Telecommunications' charges for basic connection and rental for ISDN packages, the high speed digital telecoms service, are up to six times higher than businesses pay elsewhere in Europe.

Margrit Sessions, managing director of the consultancy Phillips Tarifica which carried out the survey, said the UK risked becoming a technological outcast: "It is incredible that, even though BT has reduced some of its ISDN prices, the UK remains closer in pricing to Europe's developing nations such as Poland, Hungary and the Czech Republic than Germany, France, Holland and Sweden," she said.

ISDN lines, which make possible high-speed access to the internet and allow for the transmission of full motion video pictures, are commonly supplied as basic (two channel) or primary (up to 30 channels) packages. BT has, essentially, a monopoly on the supply of these lines in the UK. The cost of connecting a basic ISDN line is $48 in Germany, $111 in France but $331 in the UK, including $174 worth of calls. The more sophisticated primary system costs $96 to install in Germany, $692 in France but $3,867 in the UK.

BT said yesterday that the difference is pricing could be explained by the levels to which individual companies subsidised provision of the service. Deutsche Telekom, in particular, had taken a strategic decision to subsidise heavily the provision of ISDN lines to promote the service across Germany. However, the British company had been prevented by the UK telecoms watchdog from cross-subsidising ISDN provision. **Alan Cane, London**

MANUFACTURED GOODS

Prices lowest for over 30 years

The strong pound and weak commodity prices have helped keep the rise in prices of goods leaving British factory gates at its lowest for more than 30 years. Economists said the subdued growth in producer prices would help keep overall retail price inflation in check and add to pressure for a cut in interest rates.

The price of manufactured goods fell 0.2 per cent between July and August, the Office for National Statistics said yesterday. The year-on-year rate of growth fell from 0.8 to 0.5 per cent, its lowest level since June 1967.

Electronic goods such as office machinery and computers, radio, television and communications equipment, where competition from cheaper imports has been fiercest, experienced the sharpest declines. The core price index, which excludes volatile oil production and food, drink and tobacco, all of which tend to be highly sensitive to seasonal fluctuations or vulnerable to government duties, rose 0.2 per cent in the year to the end of August, in line with the previous month. **Christopher Adams, London**

ELECTRICITY SUPPLIERS

Competition 'cutting prices'

Well over 1m domestic and small business customers, representing about 5 per cent of the market, have signed up to change their electricity supplier, Professor Stephen Littlechild, the industry regulator, reported yesterday. He said the phased introduction of competition in domestic power markets, which began yesterday, had already caused prices to fall. About 750,000 customers in parts of northern and eastern England, north Wales and Scotland were being offered average savings of about 8 per cent to switch suppliers.

● Prof Littlechild signalled yesterday that he would not oppose the takeover of an electricity supply businesses by a generator provided that customers' benefited from the move. The government is due to rule soon whether PowerGen, the UK's second largest generator, can proceed with its £1.9bn ($3.13bn) agreed takeover of East Midlands, the third largest electricity supplier. **Andrew Taylor, London**

JAILED EX-BARINGS TRADER

Leeson refused early release

Singapore has refused to grant early release on compassionate grounds to Nick Leeson – the securities trader who brought down the Barings merchant bank – after he was diagnosed with colon cancer.

Stephen Pollard of Kingsley Napley, a lawyer for Mr Leeson, said yesterday that the Singapore director of prisons had told him: "We have carefully considered your appeal, and regret to inform you that Mr Leeson's current medical condition does not warrant the grant of an early release." In a statement, Mr Pollard said: "Although this decision was not unexpected it is very disappointing."

Mr Leeson, 31, has been in jail since the collapse of Barings in 1995. He is being treated in the hospital wing of the Changi Prison after an operation last month. Mr Leeson isserving a 6½-year sentence for cheating the Singapore International Monetary Exchange by falsely reporting trading positions and deceiving Coopers & Lybrand, the auditor of Barings Futures Singapore. If Mr Leeson were granted full parole, he could be released by the end of June 1999. **Sheila McNulty, Kuala Lumpur**

CONSERVATIVE PARTY EX-PREMIER HEATH ADDS TO CRITICISM OF CURRENT LEADER

Euro ballot a charade, says Brittan

By Financial Times Reporters and Agencies

The ballot of Conservative party members about the single European currency has been attacked by Sir Leon Brittan, a member of the European Commission who was previously a senior minister in Margaret Thatcher's Conservative government.

The ballot, called by William Hague, the present party leader, has also been attacked by Sir Edward Heath, who was Conservative prime minister when the UK joined the European Economic Community in 1973. Members will be asked if they agree that the party should oppose British entry into economic and monetary union at the next UK national election.

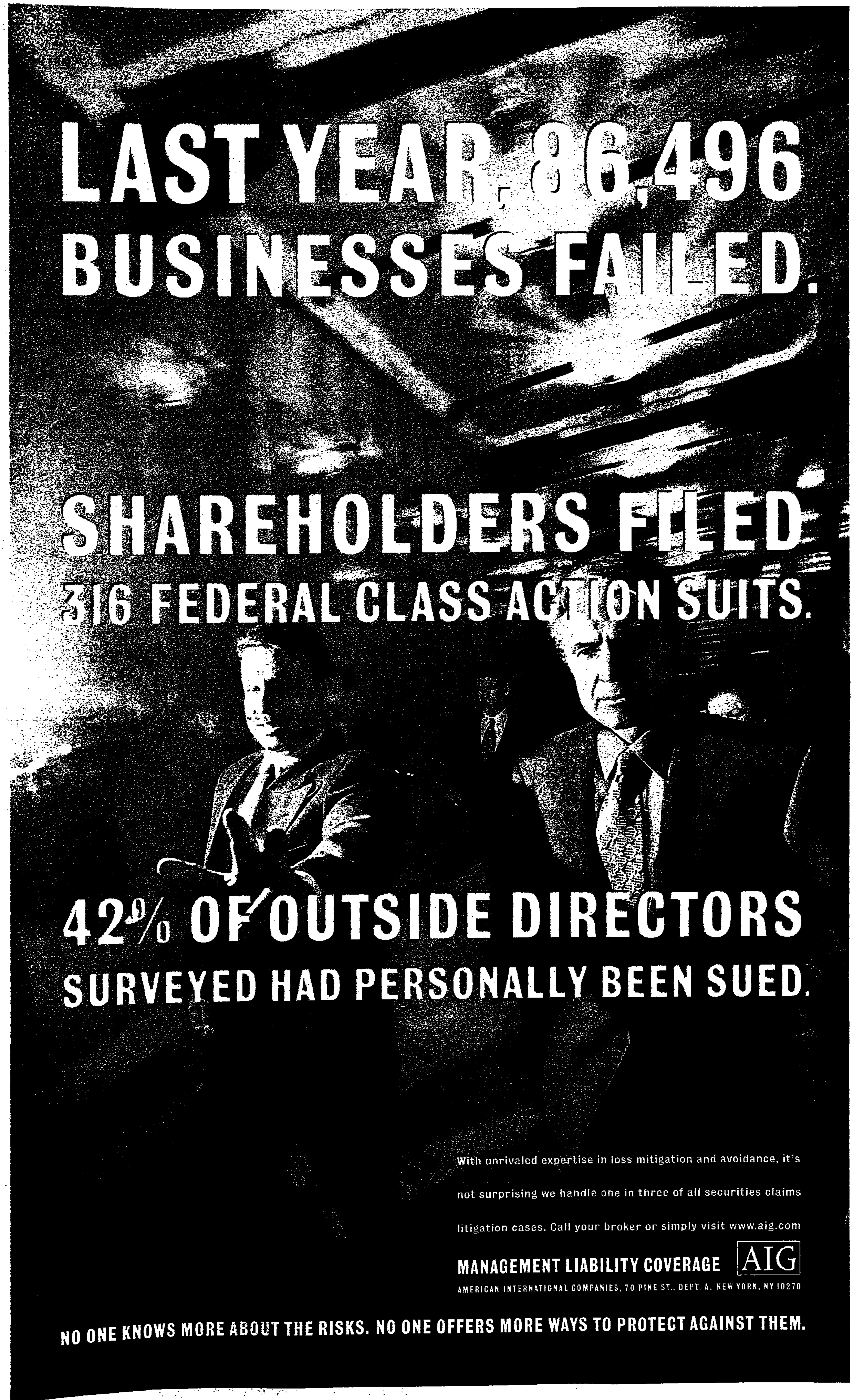
"The thing has an element of charade about it because everybody knows that he is going to win the referendum which means that it is not going to prove anything." Sir Leon said on BBC Radio. "I think there is a risk that the Conservative party becomes marginalised, if not beached." The result of the ballot would certainly not silence the pro-Europeans in the party.

Sir Edward underlined Conservative divisions over Europe by insisting he would continue to fight for "ever closer union" between Britain and the rest of the EU. He told the London Sunday Times that Mr Hague's reform of the party's organisation and structures was "damaging and wrong". Asked if he would be attracted to joining the present-day party, Sir Edward replied: "No, I wouldn't, and I know a lot of people it doesn't attract."

Mr Hague, pressed about Sir Edward's comments, said on BBC television: "I don't think he'll ever forgive any of us for leading the party after him. It's sad but it's true." Mr Hague yesterday dismissed a statement by Sir Edward that the party was not in tune with the young. Party headquarters released private polling which suggested that most first-time voters were receptive to the party's hardline stance against a European single currency.

An ICM poll found 81 per cent of those aged 15 to 24 agreed with the statement: "Britain should rule out joining the European single currency until we can see how it works in bad economic times as well as good."

Mr Hague commented: "We need a European Union which helps us, not one which holds us back, an EU which adapts to the needs of a new generation, not one which reflects the aspirations of an older generation."


LAST YEAR, 86,496 BUSINESSES FAILED.
SHAREHOLDERS FILED 316 FEDERAL CLASS ACTION SUITS.
42% OF OUTSIDE DIRECTORS SURVEYED HAD PERSONALLY BEEN SUED.
With unrivaled expertise in loss mitigation and avoidance, it's not surprising we handle one in three of all securities claims litigation cases. Call your broker or simply visit www.aig.com
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NO ONE KNOWS MORE ABOUT THE RISKS. NO ONE OFFERS MORE WAYS TO PROTECT AGAINST THEM.

PEOPLE ON THE MOVE

Smits in the driving seat at Rabobank

After barely four months on the board of Rabobank, the Dutch co-operative group, **Hans Smits** has been given the top job.

When he arrived in May as deputy chairman, the former chief of Amsterdam's Schiphol airport had no banking background. Next March he takes over from **Herman Wijffels**, who is stepping down as chairman after 12 years to head the Social and Economic Council, a government advisory body.

At 48, Smits is young enough to serve a similar term. He was six years at Schiphol, where he had to battle for room to expand its capacity in the face of environmental objections which led to tough limits on aircraft noise. That issue set back his ambition to have the hub privatised.

Smits clearly has staying power. He is known as an ardent marathon runner, like Kees Storm, chairman of Aegon, the big Dutch insurer. Smits will have to learn the insurance business as well as banking. Wijffels, after presiding over a period of international expansion at Rabo, has just agreed a merger with Achmea, a smaller rival to Aegon.

Rabo these days also includes Robeco, the Rotterdam-based fund manager. Some suspect the Dutch financial sector is entering another round of consolidation. As a co-op, such deals are trickier for Rabo than for its listed competitors. But Wijffels has made clear that demutualisation should not be expected in the near future. And with the world's only remaining AAA rating from all the main credit agencies for a non-state bank, Rabo is sitting pretty in the international capital markets.

Smits went to Schiphol in 1992 after a career in The Hague at the economic affairs and transport ministries, at the latter reaching the top bureaucratic rung as secretary general.

Gordon Cramb, Amsterdam

Bonfield succeeds Collum at SB

SmithKline Beecham, the UK pharmaceuticals company, yesterday announced that **Hugh Collum**, chief financial officer since 1989, is to retire at the end of the year. He will be replaced **Andrew Bonfield**, his deputy.

The changeover, which SB said had been long planned, comes at an awkward moment for the company, which is trying to persuade markets it has a strong future on its own after this year's failed merger with Glaxo Wellcome, its UK rival.

SB was keen to stress that the replacement of Collum, 58, did not signal any change of direction. "I've worked very closely with Hugh for seven years," said Bonfield, a chartered accountant who joined SB in 1989 when he worked on the "integration team" that oversaw the merger between SmithKline Beckman and Beecham.

Collum: retiring from SB

"Obviously we have different management skills and I'm not a clone of Hugh," he said, but he did not expect anything to change in matters of substance.

Bonfield, the youngest vice-president in the history of the company, is almost certain to join the board on Collum's retirement. Asked whether he would advise it to dispose of some of SB's non-core activities, which include the manufacture of such products as Ribena and Lucozade, Bonfield said: "It would be wrong for me to speculate about nutritionals. But obviously, if the right opportunity came up the board would have to consider it."

Some analysts suggested that bringing in a younger man might signal an openness to change, even a reappraisal of the shelved merger with Glaxo. But Bonfield said he was confident SB could deliver a strong financial performance on its own. The company is adamant that the Glaxo deal is dead.

Collum, who was appointed to the Beecham board in 1987, was recently named non-executive chairman of Chiroscience, one of the UK's leading biotechnology companies.

David Pilling, London

Lord Levene to Bankers Trust

Lord Levene of Portsoken is to take over as chairman of Bankers Trust International, the US wholesale banking group, with its head office in the City of London. He has been a senior adviser at Morgan Stanley Dean Witter.

Lord Levene, architect of the revitalisation of Canary Wharf, a new office development close to the City of London, is widely expected to be elected Lord Mayor of London at the end of this month.

The Lord Mayorship runs for one year from November, and Lord Levene acknowledges that during that period he will have less time for Bankers Trust.

"Happily today the Lord Mayor doesn't spend all his time dressed up in funny clothes, but instead discussing financial services, which is not exactly irrelevant," he said.

London bankers said Lord Levene, with a foot in the Canary Wharf and another in the City, would be ideally placed to engineer a takeover by the City of its downstream rival, which has been winning the battle to lure most of the big headquarters construction projects from banks such as Citibank and HSBC.

At Bankers Trust, Lord Levene will report to Yves de Balmann and Mayo Shattuck, vice-chairmen of Bankers Trust and chief executives of BT Alex.Brown, its equities arm. He will be filling the post once occupied de Balmann, who moved back to New York last August.

Lord Levene, who was head of defence procurement in Margaret Thatcher's Conservative government from 1985 to 1991, and adviser on efficiency and effectiveness to John Major, prime minister, from 1992 to 1997, said he had been "keen to run something".

"Investment banks like Morgan Stanley, Merrill Lynch and Goldman Sachs have overcome the issue of whether they are nasty interlopers in the UK. Bankers Trust is perhaps not quite so high profile," he said.

George Graham, London

Grieder to Swisscom

Swisscom, Switzerland's soon-to-be-privatised telephone company, has completed the rejuvenation of its top management team with the recruitment of **Calvin Grieder**, 43, to oversee the group's mobile, voice and data/multimedia services.

Grieder, who has a degree in mechanical engineering, is the fifth member of Swisscom's top management to join the group in the last year. He will be head of product houses, a new position on the Swisscom management board reflecting Swisscom chief executive Tony Reis's belief in the increasing convergence between various forms of communications, such as mobile and voice. He wants to run Swisscom as an integrated business and not just as a holding company for a range of independent businesses, such as mobile telephony.

Grieder's responsibility will be to manage the sub-units of mobile, voice and data/multimedia whose main task is to develop new products and services for Swisscom-wide marketing. He takes over from Heinz Karrer, 39, Swisscom's recently appointed marketing chief, who has overseen the product houses unit on an interim basis.

Grieder joins Swisscom from the packaging technology management of Schweizerischen Industriegesellschaft. He has worked for a number of other Swiss engineering companies including Georg Fischer, Bürkert-Contromatic and Mikron. Half of Swisscom'as top management team have been appointed within the last year, including a chief financial officer, head of network operations, head of marketing and a head of corporate and information technology. The average age of the Swisscom management is 45 and four members of the group are under 40.

William Hall, Zurich

Moving places

● **Zygmunt Tyszkiewicz**, who retired earlier this year as secretary-general of Unice, the European employer body, has become a governor of the cross-party European Policy Forum which promotes market-led, decentralist ideas across the EU.

● The Chase Manhattan Corporation has promoted **Murad Megalli** to senior country officer for Chase in Russia.

● Cisco Systems, the worldwide leader in networking for the internet, has appointed **Theo Wegbrans** vice-president for Northern Europe. Wegbrans will be a member of Cisco's executive staff in Europe. He joins from OCS, which he co-founded in 1992.

● Lince, Spain's third fixed telephony operator, has appointed **Eugenio Galdon**, the owner of Multitel, chairman. Lince is a joint venture between France Telecom and Banco Santander, Ferrovial and Cableuropa.

● Edison Brothers Stores has named **Michele Ann Bergerac** president of Edison Footwear Group. She will oversee all merchandising for Edison's Bakers and Wild Pair Footwear chains. She joins from the May Department Stores Company, where she served as a footwear executive with the Foley's division.

● The Chubb Corporation has announced that it is entering the global reinsurance business with the establishment of Chubb Re, a new subsidiary based in New Jersey. **John Berger** is joining Chubb Re as president and chief executive. Berger was previously president and chief executive of F&G Re, now a unit of the St Paul Companies.

● Swedish insurance company Foersaekrings AB Skandia has named **Anders Kvist** its new chief operating officer for its Skandia Investment Management unit from October 1. In addition, Kvist, who is presently chief executive of Skandia Liv, the company's life insurance arm, will be deputy head of Skandia Investment Management.

● Bankers Trust has named **Roberta Sonenfeld** managing director for global securities services in its global institutional services unit, reporting directly to Mary Cirillo, head of GIS. Sonenfeld comes to Bankers Trust from Citibank, where she was division executive and senior operations and technology officer for worldwide securities.

GROWING BUSINESS FLOTATION

Be prepared for a bourse debut

Katharine Campbell on lessons to be drawn from study of stock market listings in the US

If private companies cruise along more or less at their own speed on ordinary roads, the transition to public company life can resemble sudden propulsion on to a six-lane motorway.

A study by Ernst & Young, the accountancy firm, found that 28 per cent of fast-growing companies that joined Nasdaq between 1986 and 1996 deemed their float "unsuccessful".

One of the principal lessons from the study is that preparing for a listing is a relatively long-term proposition. Some 62 per cent of those disappointed with the experience reckoned the principal problem was a lack of preparation, which meant they were poorly equiped to handle the extra visibility, scrutiny and other pressures that accompany a debut on the bourse.

Meanwhile two-thirds of those who said the float had been "highly successful" – 41 per cent of the 517 chief executive officers questioned – had started behaving like public companies more than a year beforehand.

The unsuccessful ones had implemented such procedures and systems less than six months before their shares were listed, if at all. Changes included restructuring the board, revising financial and reporting systems, sorting out directors' pay and implementing investor relation programmes.

The most important driver of success after the float, appeared to be the early introduction of employee incentive programmes.

Companies classed as highly successful had an average post-float share price that was 20 per cent higher than those deemed unsuccessful. Over three years they had doubled their market capitalisation, while the unsuccessful appeared to have lost 10 per cent of their value.

Those companies where the chief executive officer had purely personal reasons for going public and viewed the float primarily as an opportunity to achieve "personal advantage" were far less likely to do well.

Companies that made the right changes – and were well-positioned compared with competitors – enjoyed an acceleration effect as they joined the stock market motorway.

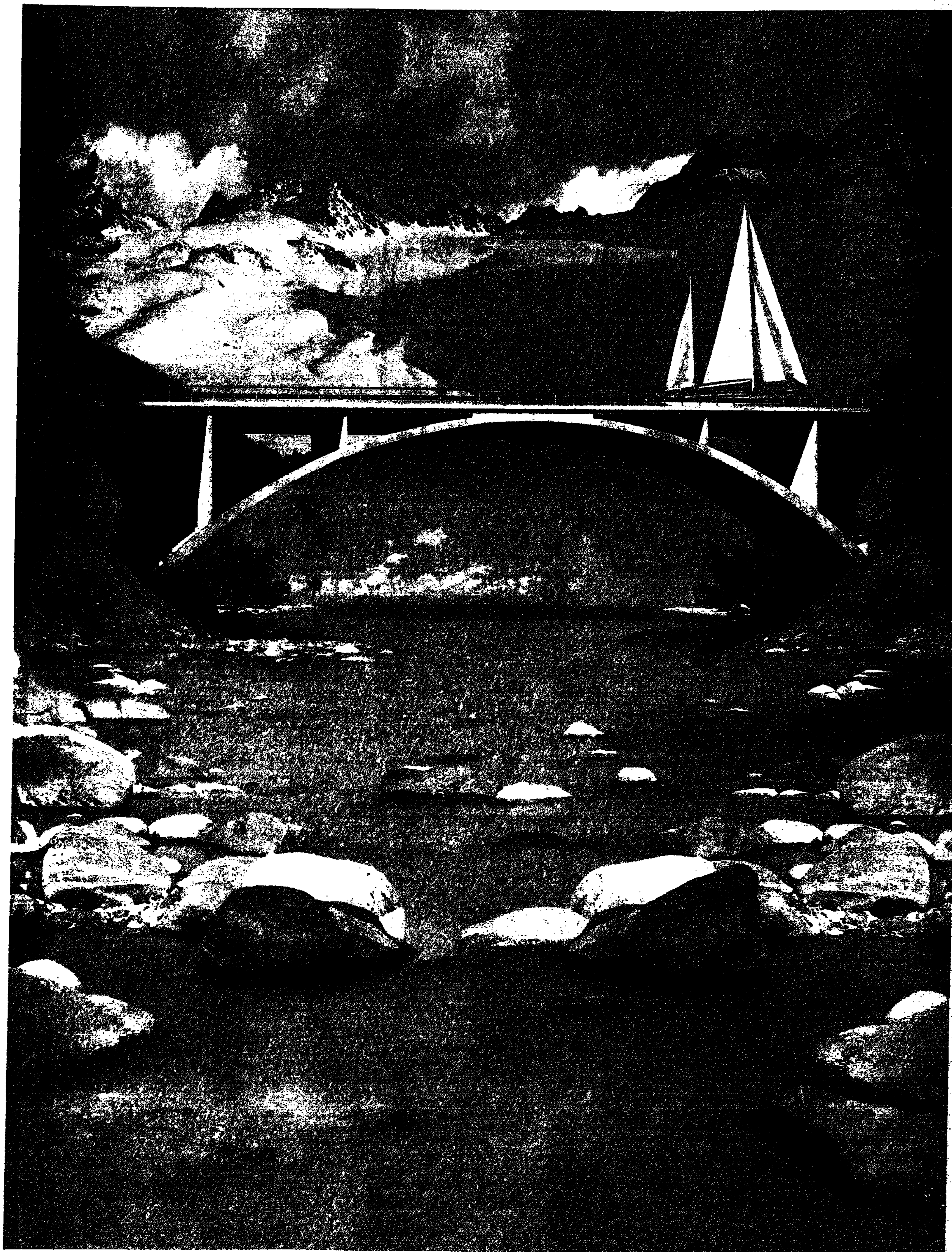
Conversely, the ill-prepared and poorly positioned found things deteriorating all the more quickly in the fast-track environment.

● An impending economic downturn could hit family businesses in Europe particularly hard, adds *Katharine Campbell*. While many currently boast a solid financial base, they tend to be worse at monitoring crucial performance indicators than non-family businesses.

The Family Business Report, produced by Grant Thornton, the accountancy firm, is drawn from the findings of its 1998 European Business Survey of 6,000 small and medium-sized businesses across 20 countries.

It found that family businesses tend to be less attuned to watching for signs of trouble, and are not as good at tracking performance through management accounts. They are also prone to overlook early danger signals, such as changes in the levels of debtors, stock or outstanding orders.

BUSINESSES FOR SALE



CINEMA VENICE FILM FESTIVAL

Power of the popcorn-eaters

As the winners are announced, **Nigel Andrews** asks who is the best to judge, the critics or the public?

A gilded paw-shake: Cate Blanchett heads a strong cast in 'Elizabeth', shown out of competition in Venice

Few outsiders suspect it, but things can get rough at film festivals. We don't have hooligans running on to the pitch, but we do have directors running off at the mouth.

The big philosophical football at Venice has been "Who should judge a movie, the paying audience or paid film critic?"

Alessandro D'Alatri, maker of the Italian film *The Garden of Eden*, which the public cheered while the press jeered (albeit in different cinemas), said it was criminal – yes, criminal – of reviewers to ignore or dismiss the *vox populi*. Festival boss Felice Laudadio then seemed to endorse D'Alatri by urging critics to slip into the last minutes of public screenings, presumably with pocket seismographs to register audience response.

It is a mad world or threatens to be. The reason critics are paid to see films is that they know about them, care about them, think about them. Sometimes they get it wrong when the public gets it right. But look at most movies that have weathered the century and you will find that critics liked them, back in their year of birth, while the public voted with yawns or absence. Giving more opinion-forming power to popcorn-eaters isn't democracy in action, it is intelligence in dereliction.

So what were, respectively, the Golden Lion winner at Venice and – for me and many – the best film? They were Gianni Amelio's *Così Ridevano* and Mohsen Makhmalbaf's *Le Silence*, both watched by townies with a quantum drop in enthusiasm compared to the cheers they meted out to George Clooney in *Out of Sight* (latest Elmore Leonard novel to hit a defenceless screen), Jim Carrey in *The Truman Show* (*1984* goes Hollywood) or any of the other non-competitive US biggies unspooling in midnight showings.

More on the Lion winner presently. Makhmalbaf's film won something called a Senate Medal, for which I shower praise on the senate. The wonder of this new movie by the Iranian director of *The Cyclist* and *Gabbeh* – it tells of a blind boy threatened both with home-eviction and with expulsion from his job as an instrument-tuner – is that it makes you reinvent your notion of cinema.

The style is all jewelled cut-ups. It is as if Makhmalbaf's late mid-eastern neighbour Sergei Paradjanov (*The Colour of Pomegranates*) had breathed inspiration into the collage-style visual portraiture (a lip, an eye, a pigtail) or into the Tadjikistan-shot scenery magical with half-imagined sights and intensely felt sounds, (rustling water, restless winds).

The boy has overheard, somewhere, the first notes of Beethoven's Fifth. So those hammer-blow chords become first a playful motif – he gets copper-beaters to thrum them for him – and finally a stunning epiphany. The film is all about transcending dispossession; all about a sense-deprived human being turning his fragmented world into a whole, much as audiences themselves turn the flickering staccato of celluloid into a continuum.

Sometimes, of course, a festival public can dislike a film and be dead right. Venice had its abominations. They ranged from Abel Ferrara's *New Rose Hotel*, featuring Christopher Walken in a drugs-and-crime yarn of giddying inconsequence, to two Latin horrors in Fernando Solanas's *The Cloud* (when in doubt in neo-Marxist Buenos Aires, break into song) and Joao Botelho's *Traffic* (when in doubt in bourgeois-satirising Portugal, imitate, badly, Bunuel's *Discreet Charm*).

There were also movies to which the public could be forgiven for reacting perplexedly. Both the Italian grand prize winner, Gianni Amelio's *Così Ridevano* (*The Way We Laughed*), and Julio Medem's liked-by-some (including me) *Lovers of the North Pole* from Spain are slow to bewitch.

Amelio tells of two Sicilian emigrant brothers meeting disillusionment in early-1960s Turin, assailed by homesickness and their grim baptism in the affluent society. Medem follows two lovestruck foster-siblings all the way from surreal Spain to even more surreal Lapland: visions, coincidences and wacky encounters from the maker of *Vacas* (*Cows*).

By the close of each, though, we are breathing in time with the director and characters. *Lovers* shows that Iberia and its empire are still the true home of magical realism, where movies are suckled on an ancestry of wonder handed down from Cervantes and Goya to Miro and Marquez. *Laughed* becomes a harrowing picture of a still-divided Italy, whose north and south are not just different regions but different realities.

Where previous Amelio films (*The Stolen Children*, *Lamerica*) oscillated between the austere and sentimental, as if unsure whether to please or to challenge their audiences, his new film pleases *by* challenging. Its marvellous visual texture – a gloomy, grainy impasto you could almost sink your fingers in – suits the profundity of this psycho-social portrait.

Three other Venice movies deserved, if not a Golden Lion, at least a gilded paw-shake. *Elizabeth*, showing out of competition, proves that if you are mad enough to hire an Indian director to film the early years of Elizabeth I, you may reap the reward of courage.

Shekhar (*Bandit Queen*) Kapur's costume epic is a jaw-dropper: vast sets, soaring camerawork, costumes to near-blind the unwary. Add strong performances – especially from Cate Blanchett as Elizabeth, looking like an ice-queen version of Tilda Swinton, and Oscar-winner Geoffrey *Shine* Rush as her creepy security chief Walsingham – and it's like a good night out at the theatre combined with the kinetic uplift of cinema.

Hurlyburly and *White Cat, Black Cat* are helter-skelter comedies from the US and former Yugoslavia. David Rabe wrote the first, from his stage play about male chauvinist motormouths meeting mid-life crisis, and Kevin Spacey, Meg Ryan and Sean Penn, who won Venice's Best Actor award, perform the roof off.

The roof stayed off for twice-Palmed Cannes hero Emir Kusturica, who won a Best Director Silver Lion for his merry, going on demented, tale of gypsy life.

At the end of each day there was Hollywood. Even Cannes, to reinvoke the mother of movie events, cannot match Venice's record for pulling in top US films and celebs. This year it was Warren Beatty, whose acting-writing-directing satire on American politics *Bulworth* was topical if not top-rate; Robert De Niro, Method-emoting in a new thriller called *Ronin*; T. Hanks and S. Spielberg, saving Private Ryan; and Melanie Griffith, Jim Carrey and George Clooney.

Dark rumours abound that Felice Laudadio, who gave Venice '98 its best programme in years, is about to quit. A festival riven with political in-fighting is used to having its artistic directors drop to the canvas in early rounds. Most of us critics, though, think there is too much canvas around altogether. Too much on the floor and too much on the roof (do we *have* to watch movies in a giant tent?), when it should all be on the easel for great movie artists.

Also, if they have decided that to legitimise filmic judgment they are now going to canvas(s) the public – to stretch a lexical leitmotif to its limit – Venice may quickly turn from the best festival in European movieland to its biggest, loudest laughing stock.

Words speak louder

THEATRE

IAN SHUTTLEWORTH

Crave
Royal Court Upstairs
Ambassadors Theatre
London

"It isn't theatre," declared a friend after the London opening of Sarah Kane's *Crave*, whose initial Edinburgh run was mentioned briefly last month by Alastair Macaulay. I was surprised how strongly I disagreed, and how difficult I found my explanation. Let me try again.

It is true that Kane's latest play, which sees her definitively transcend the furore of her debut with *Blasted*, has no plot in any conventional sense, nor any physical action. Vicky Featherstone, directing for Paines Plough, places the four actors on a row of swivel chairs, the only bodily movement during 45 minutes being an occasional quarter-turn of one seat or another, so that when two of the performers get up and change places it strikes as a theatrical *coup*.

Kane's script denotes the characters by initial letters only, and includes no stage directions of any kind other than indicating where to leave a beat between what are almost invariably single, brief lines. Featherstone has actors sometimes deliver remarks to an obvious interlocutor, sometimes to another party, sometimes leaves them hanging directionless, so that we seem to be catching only fragments of monologues and conversations which constantly run beneath the lines we are allowed to hear.

The work resembles a spoken poem more than a play: indeed, it comes most nearly unstuck when it attempts most openly to be poetical, either with strings of internal rhymes or explicit quotation from *The Waste Land*. However, the wave of the language moves too quickly for these moments of awkwardness to have any lasting effect. *Crave* echoes Eliot's poem on many levels – quotation, oblique reference, occasional lines in other languages and general atmosphere; the city to which the actors refer might as well be Eliot's "unreal city", their emptinesses and sufferings those of his characters, but far more passionately expressed. Even when the object of want is not articulated (as, aside from one bravura extended monologue, it scarcely ever is), the ferocity of the craving itself is palpable.

Given these circumstances, then, is *Crave* a play – is it, at any rate, a theatrical play rather than a radio piece? I believe fervently that it is, and that it gains more than most works from being presented in the living, visible, physically present flesh.

It demands physical communion. That makes it theatre, and marvellous theatre at that.

Until October 3, then touring to Berlin and Dublin.

Rip it up, and start again

OPERA

ANDREW CLARK

Otello
Coliseum, London

Coming hard on the heels of the Royal Opera's closure announcement, English National Opera's new *Otello* has succeeded simply in compounding the gloom. Leaving the Coliseum after the first night, the only feeling I could summon was sorrow for a cast that had struggled valiantly to surmount the noise and ugliness of David Freeman's pseudo-realistic modern setting.

In the current climate, it would be easy – but mistaken – to exaggerate the significance of one production, to interpret this *Otello* as a symptom of London's deepening operatic recession. So let's be sanguine: we needed a pick-me-up, but were given a depressant.

The scenario devised by Freeman and his designer, Tom Phillips, suggests they have been reading too many newspaper stories about unmilitary behaviour at British army outposts. Their starting point is not the psychological truthfulness of Shakespeare and Verdi, but the geographical setting of Cyprus – the most superficial element of the drama. Updating the action to the present, they try to convince us that the Moor is officer-in-command along the United Nations demarcation line, and Desdemona a standard army wife. The set is a barbed wire fence surmounted by a radar post, and this being the age of equal opportunities, everyone - including Emilia! is clothed in fatigues. Phillips's translation penetrates this world with lines like "You bastard" and "Could you pass me my hairbrush?".

The irony is that the more realistic the production tries to be, the more stock-operatic it becomes. The power of all great dramas lies in the way they transcend or defy reality, using a mixture of theatrical licence and poetic distancing to draw us into the realm of character and motivation. Hyper-realism not only breaks that spell, making nonsense of Verdi's great Act 3 ensemble and the Otello/Desdemona death scene, but sidelines the music.

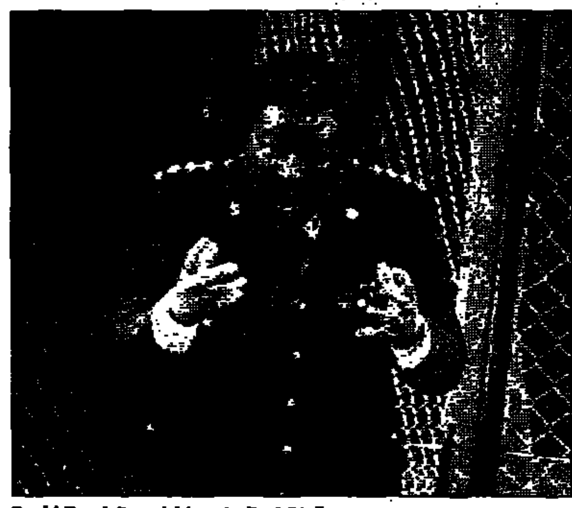
The opening storm is heavily overlaid with electronic simulations; dialogue is regularly fused with the guttural shouts of parade-ground drill; duets, soliloquies and ensembles are interrupted by squaddies trudging across the set. The whole thing is jarring, and typical of the smug, in-your-face contempt with which Freeman seems to regard ENO audiences.

Amid the fakery it is still possible to discern a real Otello. David Rendall's career has been a patient ascent to this summit, and he proves himself worthy of the challenge. "Esultate" establishes a commanding presence, each note cleanly and spaciously articulated. Rendall has the power where needed, as the heroic ring of his Act 2 outbursts confirm. But his essentially lyrical approach gives the voice a bronzed liquidity which is appealing, and the *sotto voce* asides are tellingly phrased.

Diction is flawless (a lesson to the rest of the cast, except Mark Le Brocq's fine Cassio), while his acting in Act 3 is a vivid portrait of psychological collapse. There's enough here to suggest that, given the right opportunities, Rendall's Otello will bestride the world.

Susan Bullock takes longer to establish herself, partly because her costumes in the first two acts are so unflattering. This is a plainer, more mature Desdemona than we are used to seeing, and one evidently inured to marital abuse; but Bullock makes us privy to the emotional wounds, and caps her portrait with glorious arcs of sound. Robert Hayward's Iago is neither plausible devil nor creepy jester; he's just a well-camouflaged snake with a grudge, – so well-camouflaged, in fact, that he's rather anonymous. Rebecca de Pont Davies makes an impressive house debut as Emilia and the other comprimario roles are strongly cast.

For Paul Daniel, the company's music director, this *Otello* represents a lapse of judgment. Why are there so many intervals? Why are the choruses so disorganised? He should never have let Freeman get away with mauling Verdi's score, and even with eyes shut, there are some cringe-making moments, such as the out-of-tune Act 2 serenade. The orchestra seems happiest with guns blazing - the brass have a field day - in common with Daniel's epic reading of the score. All in all, it's not much of a welcoming present for ENO's incoming general director, Nicholas Payne. Let's hope he writes it off and starts again.



David Rendall: a vivid portrait of Otello Alastair Muir

Sponsored by The IIR Group.

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: Carlson-Humphrey-Tharp. Programme of works by the three choreographers; Sep 15, 18, 19

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen. Cast includes Heinz Kruse, Jeannine Altmeyer and Henk Smit; Sep 16, 20

BASLE

EXHIBITION
Kunstmuseum
Tel: 41-61-271 0828
www.kunstmuseumbasel.ch
A House for Cubism: the Raoul La Roche Collection. Display of works collected by the Swiss banker and given to the museum in the 1950s and 1960s. Includes works by Picasso, Braque, Léger, Gris, Le Corbusier and Ozenfant; to Oct 11

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Art and Archaeology of Ancient West Mexico: more than 200 works, including terracotta figures found in tombs, and findings of recent excavations; to Dec 6

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Fames; Sep 16, 19

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Chamber Orchestra of Europe: conducted by Heinz Holliger in works by Haydn and Mozart; Sep 18

LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-960 4242
London Philharmonic Orchestra: Valery Gergiev conducts the season's opening concert. Programme includes works by Tchaikovsky and Berlioz, with the London Philharmonic Youth Orchestra, London Philharmonic Choir and violin soloist Sarah Chang; Sep 20

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 16, 19
● Rusalka: by Dvořák. Conducted by Richard Hickox in a revival of David Pountney's production, directed by Lynn Binstock. The title role is sung by Susan Patterson; Sep 17

LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Werther: by Massenet. Conducted by Emmanuel Joel in a co-production with Théâtre du Capitole Toulouse staged by Nicolas Joël and designed by Hubert Monloup. The title role is sung by Ramón Vargas; Sep 15, 18

LUCERNE

CONCERTS
International Festival of Music
Tel: 41-41-226 4400
www.LucerneMusic.ch/
● Vienna Philharmonic Orchestra: Lorin Maazel plays violin in a work of his own composition and conducts a work by Sibelius; Sep 15
● Vienna Philharmonic Orchestra: conducted by Lorin Maazel in a work by Mahler; Sep 16

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Heinrich Schiff in works by Beethoven, Hindemith and Mahler; Sep 20

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic: Kurt Masur conducts works by Beethoven, in the season's opening concert. With violin soloist Isaac Stern; Sep 16
● New York Philharmonic: Kurt Masur conducts Beethoven – The Complete Symphonic Cycle. Programme I (Sep 17, 18); Programme II (Sep 19)

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Letters in Gold: Ottoman Calligraphy from the Sakip Sabanci Collection, Istanbul. 70 objects ranging from the 15th to the 20th century. Includes manuscripts, panels and scrolls; to Dec 13
● The Nature of Islamic Ornament, Part II: Vegetal Patterns. Second in a four-part series on Islamic ornament from the 9th to the 18th century. Includes rare brocades and carpets; to Jan 10

Whitney Museum of American Art
Tel: 1-212-3272801
Mark Rothko: major retrospective of the American abstract artist, previously seen in Washington and including loans from Europe and Japan. The 100 works on display encompass all phases of Rothko's career, from the late 1920s to 1970; to Nov 29

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
● Partenope: by Handel. Directed by Francisco Negrin and conducted by George Manahan. Lisa Saffer sings the title role; Sep 16, 19
● Tosca: by Puccini. New production by Mark Lamos, in association with Glimmerglass Opera. George Manahan conducts and the cast includes Isabelle Kabatu, Anotonio Nagare and Mark Delavan; Sep 15, 18

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Leonard Slatkin in works by Chabrier, Franck, Fauré, Roger-Ducasse and Schmitt. With piano soloist Michel Dalberto; Sep 17

ROME

EXHIBITION
Borghese Gallery
Bernini, the Sculptor: The Beginning of Baroque Art in the Borghese Family. Brings together pieces belonging to the Villa with loans from abroad, including the famous Hermaphrodite from the Louvre; to Sep 20

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
A Streetcar Named Desire: world premiere of a new opera by André Previn, with a libretto by Philip Littell based on Tennessee Williams' play. André Previn conducts and the cast includes Renée Fleming; Sep 19

SEATTLE

CONCERT
Benaroya Recital Hall
Tel: 1-206-215 4747
www.seattlesymphony.org
Seattle Symphony Orchestra: conducted by Gerard Schwarz in a retrospective of the orchestra's composers-in-residence. Includes world premieres of works by David Stock and Samuel Jones; Sep 16

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Yomiuri Nippon Symphony Orchestra: conducted by Gilbert Varga in a programme including works by Chausson and Ravel; Sep 16

VIENNA

CONCERTS
Musikverein
Tel: 43-1-5058 6810
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Schoenberg and Mahler; Sep 15
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Wagner, Berg and Tchaikovsky; Sep 16

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

Japan's new warriors

Japan's economic crisis will liberate its companies from traditional relationships and make them more competitive

Japan Inc is dying. The country's economic crisis ensures that its traditional corporate structure cannot survive. For western companies, this may be the most profound long-term implication of the crisis.

In the short term, of course, the state of Japan's economy and banking system is more important. But assuming that the Japanese government manages to stave off a depression, what happens to the country's big companies is vital for western competitors.

Japan Inc will change in at least three ways. First, its intimate fabric of corporate relationships will unravel. Second, the "convoy system", which has kept competitors moving along in the same direction at the same speed, will break up. And third, the nature of foreign companies' presence in Japan will undergo a qualitative change. Together, these three changes will transform Japanese business.

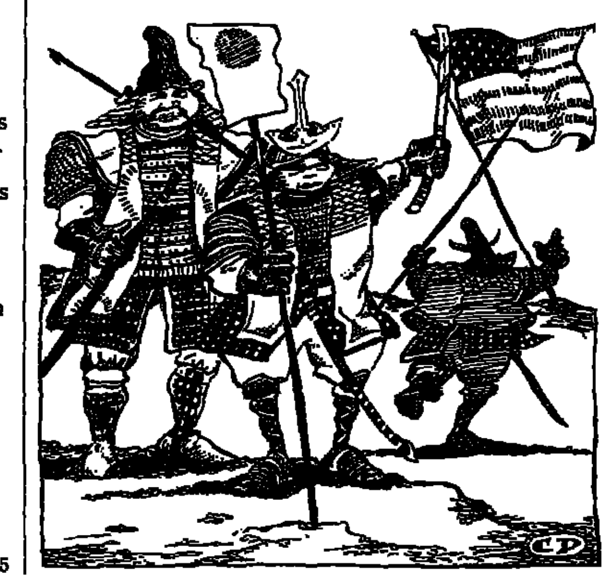
The first change, the unravelling of corporate relationships, is best captured by recent developments in two of the *keiretsu*, or informal but powerful business groupings that dominate Japanese life. On Friday, Bank of Tokyo-Mitsubishi, which lies at the heart of the Mitsubishi *keiretsu*, announced that it was tightening its links with three financial companies in the group. On the face of it, this might seem like a strengthening of *keiretsu* links rather than a relaxation. But in fact it reflects the fact that the bank can no longer rely on Nikko Securities, another *keiretsu* member, for unqualified support.

Nikko has agreed to sell 25 per cent of its shares to the US financial conglomerate Travelers Group. More important, much of its capital markets activities will be merged into a joint venture with Travelers. Bank of Tokyo-Mitsubishi might reasonably have expected that the Big Bang deregulation now under way in Japan's financial markets would have pushed Nikko into its arms. Instead, it has lost it to a foreign suitor.

Another recent example comes with the revelation over the weekend of a planned Y200bn (£870m) refinancing by Fuji Bank, a core member of the Fuyo *keiretsu*. The bank will be asking the other members of the group for the money, including Hitachi, Marubeni, Canon, Nissan and the Yasuda life and property-casualty insurance companies. Many of these companies are in poor shape. Even if they manage to rally round their banking partner this time, they will be ill-placed to help it out further if needed. Nor will they be able to help other members of the group in similar straits. The Fuyo *keiretsu* has, after all, already allowed one of its members – Yamaichi Securities – to go bankrupt.

The Fuyo *keiretsu* also illustrates the second theme, the ending of the convoy system. One of its most important members, Nissan, has decisively slipped behind its more successful rivals Toyota and Honda. Toyota has become one of the world's most successful and profitable car companies. Nissan, for decades a near twin, is now a pale shadow. A Japanese motor industry which once operated in lock-step – expanding abroad together, extending product ranges, adopting just-in-time production – is now much less of a monolith.

Meanwhile, western companies' activities in the Japanese market are undergoing a subtle but important shift. Until now, relatively few western companies have been able to boast of treating their operations in Japan on the same basis as in other countries. Too often, they have had to operate through joint ventures that leave them at arm's length from the levers of power. In particular, they have often been unable to dictate profit targets or the level of competitive aggression.



That is still the preferred approach of their Japanese partners. Nikko Securities, for example, seeks to keep its initial relationship with Travelers Group firmly under control. It is determined to retain 51 per cent ownership of the joint venture, to run it with a quota system for board seats, and to corral its sphere of activities to an area – wholesale market operations – in which it needs outside assistance.

Yet even if Nikko succeeds in confining its relationship with Travelers at the outset, it is likely to come under irresistible pressure to open it up in future. Other Japanese companies are increasingly finding their western partners are no longer content to accept an arm's length role. With the yen weak and share prices depressed, there has been a steady trickle of western companies buying control of their Japanese joint ventures.

None of these changes will happen overnight. Even when a western company acquires 100 per cent ownership of its Japanese operations, for example, it must still wrestle with the complexities of the local market. Its behaviour cannot change instantly.

But over time, Japanese companies will become a lot more like European or American ones than past experience suggests. Japan's crisis will be long and painful. But as it eases, the most successful Japanese companies will re-emerge as global powers. Liberated from traditional relationships, more clearly oriented towards profit, strengthened by victories over domestic competitors, they will not be comfortable competitors. The most important task for western business is to start to think of them as companies in their own right, not as subsidiaries of Japan Inc.

peter.martin@FT.com

LETTERS TO THE EDITOR

West could rectify criminal process of Russian company ownership

From Mr Robert J. McIntyre.

Sir, Vladimir Potanin's offer ("Plea over Russian bank debt", September 11) to make good on foreign loans by transferring ownership of Russian companies "owned" by his bank is funny, but not amusing. Since many, if not most, of the large-scale privatisation steps of the Chubais era are formally illegal, it has long been obvious that any post-Yeltsin government that responded to either popular opinion or the dictates of a rational economic policy would re-nationalise many of these entities.

The abrupt reorientation of economic policy under Primakov probably brings these actions forward in time. These privatised companies continued to this day to export large physical volumes of valuable goods while declaring themselves unable to pay wages, taxes or input bills at home. The new owners of many such industrial and resource production enterprises secreted the proceeds of foreign sales abroad, deposited in personal, not corporate accounts. This is simply stolen money, amounting to tens of billions of dollars. Many of these transactions have been documented in detail by the "Accounting Chamber" of the Russian government.

Mr Potanin helpfully offers to turn over physical assets in Russia that he is likely to lose. The value of his claims to these physical assets will not increase if they are passed to foreign banks. Since the Russian government now owes tens of billions to foreign governments, banks and corporations, it may wish to issue what are, in effect, licences to seize the personal assets of the perpetrators of this unprecedented wave of misappropriation and asset stripping.

The West could redeem itself in the eyes of the once-trusting Russian population by playing the collection agency role. This appears to violate western norms of separating personal and company business, but in this case would rectify a sustained criminal process in which the west has been complicit. Ways have been found to deal with the international movement of the proceeds of other criminal activity. Let the Accounting Chamber present its evidence and see how much of the loot can be found.

Robert J. McIntyre,
project director,
Transition from Below UNU/WIDER (World Institute for Development Economics Research),
Katajanokanlaituri 6B,
00160 Helsinki, Finland

Something wrong, surely

From Mr Geoffrey Dicks.

Sir, Yet again you promulgate the pernicious view that "unemployment must now be allowed to rise – perhaps by 500,000 – to bring the economy back to a non-inflationary path" ("Bank turn", September 11).

The argument is based on the so-called natural rate of unemployment, or NAIRU (non-accelerating inflation rate of unemployment), analysis. This says there is a level of unemployment that is consistent with stable inflation. If the authorities try to hold unemployment below that level, inflation will continue to rise – and at an increasing rate.

By arguing for a 500,000 rise in unemployment you are implicitly saying that it has been below the natural rate for some 2¼ years. If the NAIRU theory has any validity, inflation should surely now be on an increasing (accelerating?) trend? Is it? Quite the reverse. Does this not imply there is something wrong with the theory?

The distinction is not trivial. Sacrificing 500,000 jobs to a theory which appears to be contradicted by the evidence could hardly be more irresponsible. Fortunately the Monetary Policy Committee appears to be more pragmatic than you are.

Geoffrey Dicks,
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1 Jermyn Street,
London SW1Y 4UH, UK

Absent from the persecutory chorus

From Mr Norman Birnbaum.

Sir, In the Financial Times reports from the US on our presidential crisis, there is one matter which your correspondents have not quite given the attention it merits. Persecutory zeal, accompanied by a quite extraordinary charge of hypocritical self-righteousness, is the most evident motivation of the president's adversaries.

It is interesting to note that there are two bodies which have rather conspicuously not joined in the chorus demanding of the president a continuous exercise in public self-humiliation (the stocks of the Puritans may yet be retrieved from New England's museums).

One is the leadership of the black protestant churches. The other is the US Catholic bishops conference. Each, of course, can draw upon melancholy memories of the good conscience of those who behaved toward its recent ancestors with exemplary brutality.

Norman Birnbaum,
Georgetown University Law Center,
600 New Jersey Avenue NW,
Washington DC 20001-2075,
US

Travel wisely, and in comfort, on the trains of India

From Mr Joe Tibbetts.

Sir, Giles MacDonogh's dos and don'ts in India (Weekend Travel: "Monkey business", September 12-13) were amusing but misleading. Indian trains are not always dirty but often surprisingly clean and the lavatories are for the most part far cleaner and more fragrant than many on Connex South East.

Only the terminally daft would travel in an air-conditioned carriage. Ordinary first class is cool, clean and comfortable and does not isolate the traveller in an hermetically sealed bubble.

For the business traveller the train, especially overnight, is a great way to win time and relax between cities. Long journeys by road in India are hell and internal flights are often subject to long delays. Furthermore, foreigners get priority booking on Indian railways whereas business flights between big cities are a free-for-all with the local business traveller at an unfair advantage.

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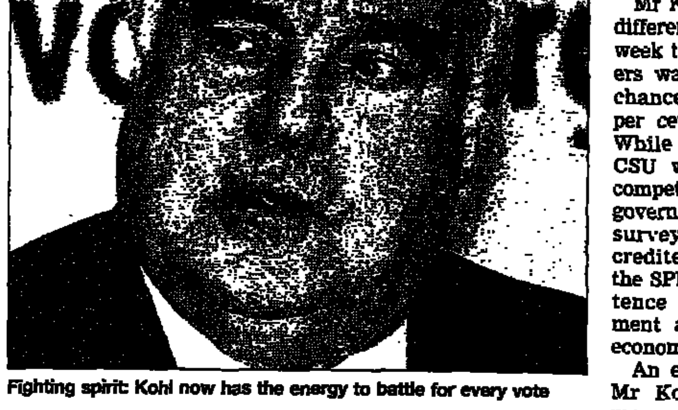
Second wind for Kohl

The victory in Bavaria of the chancellor's sister CSU party has galvanised his election campaign, and poses uncomfortable questions for his challenger, says **Peter Norman**

It was a day of meteorological metaphors in Munich, Bavaria's capital, yesterday. A convincing electoral victory for Edmund Stoiber, the state's Christian Social Union prime minister, brought some sunshine into the campaign to re-elect Helmut Kohl as German chancellor in the federal elections on September 27. In Sunday's poll in Bavaria, the CSU unexpectedly increased its absolute majority to 52.9 per cent.

"All Germany has waited for the south wind – and it is coming," enthused Michael Glos, leader of the CSU's 50 MPs in Bonn who, with their 244 colleagues from Mr Kohl's Christian Democratic Union, form the biggest political block in the Bundestag, Germany's lower house of parliament.



Fighting spirit: Kohl now has the energy to battle for every vote

The opposition Social Democrats were understandably less poetic, having seen a slim lead in the exit polls turn into a 1.3 percentage point loss, compared with the state election four years before. "It was a regional election," said Gerhard Schröder, the SPD challenger to Mr Kohl. "We lost in Bavaria but I am firmly convinced that the Bundestag election with be different – and that will be true in Bavaria as well."

Either way, Mr Stoiber, by increasing his absolute majority by 0.1 percentage point against opposition from 18 other parties, has breathed new life into Germany's general election campaign. An ebullient Mr Kohl, declaring himself "full of fighting spirit", pledged yesterday to "battle for every vote" in the remaining 13 days. Mr Schröder, looking chastened, opined that the Bavarian election could help mobilise SPD support to dislodge the chancellor.

Oskar Lafontaine, the SPD leader, and Renate Schmidt, the Bavarian SPD candidate who had seen her hopes of "30 per cent plus" pared back to 28.7 per cent late on Sunday, offered plenty of reasons for the setback. It was difficult to mobilise supporters when a change of state government was not expected. Mr Stoiber was an acknowledged success as Bavarian prime minister. The CSU, as the state's sole party of government since 1966, had far greater resources than the SPD.

But with due recognition for the peculiar politics of Bavaria, Sunday's result raises some uncomfortable questions for Mr Schröder.

The result must cast doubt on the opinion poll lead that he has enjoyed since he was chosen to be SPD candidate in March. Despite some erosion in recent months, his advantage over Mr Kohl was still put at between three and six percentage points last week. The pollsters' credibility was not helped when one company, Forsa, got its prediction for Bavaria horribly wrong last Friday, putting SPD support at 34 per cent and the CSU slightly below 50 per cent.

This error and similar glitches in recent state elections suggest Germany's polling companies have problems divining the last-minute doubts felt by Germany's traditionally conservative voters. Mr Kohl has been saying for months that the federal election will only be decided at 6pm on September 27. With polling companies reporting that between 26 and 41 per cent of voters are undecided, the chancellor should perhaps be taken more seriously.

The SPD lost heavily in its traditional urban strongholds and notably in Munich, which has an SPD mayor heading a coalition with the environmental Greens. The losses could be a sign that the party is vulnerable to the decline of traditional working-class support as the cities lose some of their industrial base. They might also show that voters dislike Red-Green coalitions – one possible result of the national poll.

The need to mobilise traditional supporters while seeking to embrace a "new centre" of middle-class floating voters has posed a dilemma for Mr Schröder. In his public appearances in Bavaria, he toned down the importance of the "new centre" and stressed the traditional Social Democrat agenda of social justice and welfare to rally his own troops. In the process, he may have driven some potential supporters back to the CSU.

Mr Schroder's recent campaigning has appeared to validate Mr Kohl's strategy of making this a "whither Germany" election. The chancellor has aimed to draw a line between his centre-right coalition and a confederacy of leftist SPD and Greens, which, Mr Kohl insists, would not scruple to take power with the support of the former communist Party of Democratic Socialism (PDS) if necessary.

On the other hand, not all is well with Mr Kohl. Sunday's election was a resounding vote of confidence not in him but in Mr Stoiber. According to Forschungsgruppe Wahlen (FGW), the Mannheim-based political research group, 62 per cent of Bavarians wanted Mr Stoiber as their prime minister against 31 per cent backing Mrs Schmidt. Four-fifths of Bavarians said Mr Stoiber was doing a good job, including 75 per cent of SPD voters in the state.

Mr Kohl's position is quite different. FGW reported last week that 57 per cent of voters wanted Mr Schröder as chancellor against only 36 per cent wanting Mr Kohl. While Mr Stoiber and the CSU won high marks for competence in all fields of government, FGW's national survey found that voters credited Mr Schröder and the SPD with greater competence to solve unemployment and Germany's other economic problems.

An even bigger worry for Mr Kohl was the performance in Bavaria of the small Free Democratic Party, the junior member of the Bonn coalition. With just 1.7 per cent of the vote, its support fell below that of the exotic Ecological Democratic Party and well short of the 5 per cent needed to enter parliament.

According to Dieter Roth, a senior FGW researcher, the FDP would never be elected to the Bundestag if it relied on its core support. It depends on tactical voting by those who want the party to be available as a coalition partner and as a moderating influence on the CDU/CSU or the SPD's left wing.

The FDP's abysmal performance in Bavaria raises doubts about whether it can mobilise support when the CDU/CSU and SPD are fighting for every last vote in the Bundestag election. Even if Mr Kohl recovered sufficiently against the odds for the CDU/CSU to be the strongest party in the next Bundestag, he could find the FDP had failed to be returned and himself out of power.

In short, following the Bavarian election, the ultimate decision on who rules Germany may well end up with three small parties, the Greens, the FDP and the former communist PDS, which together account for less than one-fifth of the popular vote.

That is unless the gladiatorial contest between the chancellor and Mr Schröder clears the air in the final days of the campaign.

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday September 15 1998

Mixed message from Bavaria

Momentum counts in elections. This weekend's Bavarian state poll, returning the local version of the Christian Democrats with a slightly larger majority, provides a fillip to Chancellor Helmut Kohl and a blow to the front-running Gerhard Schröder and his Social Democrats. But, for three reasons, it does not necessarily indicate a national mood change that would propel Mr Kohl back to power.

First, Bavaria is special. Edmund Stoiber, its Christian Social president, uses a tougher brand of conservatism on, say, crime and immigration than Mr Kohl. His constituency in Bavaria is also more prosperous than the rest of the country. Second, because there was no prospect of unseating him, the SPD had less incentive to mobilise. And third, while the Bavarian poll spelt bad news for the Greens, Mr Schröder's potential ally, it was worse for Mr Kohl's actual Free Democrat (FDP) allies. The FDP has always tottered on at the national level without ever doing well in state elections; yet its 1.7 per cent of the Bavarian vote was bad even by its standards. The FDP is the only ally Mr Kohl has countenanced; he rejects a "grand coalition" with the SDP.

With less than a fortnight to go to polling day, both Mr Kohl and Mr Schröder appear to be drawing back from the centre in order to *mobilise their traditional* troops on the flanks. The tactic is obvious for Mr Kohl, the grand coalition rejectionist; less so for Mr Schröder who is far more opportunist about post-election allies. But Mr Schröder's Blairite talk of creating a new centre appears to be confusing or even turning off some SPD regulars, whom he is now again appeasing *by stressing social justice.*

Both candidates still have work to do. Mr Kohl needs to show he still has the ideas and energy to run the country for another four years. His opponent has cannily acknowledged the ageing chancellor's past achievements, to criticise all the more forcefully his capacity to rise to future challenges. Russia is one such challenge, tax reform another. How would Mr Kohl prevent another failure of his tax reform?

Mr Schröder evidently has to do more to demonstrate he is personally trustworthy – in a low blow the CDU is exploiting his three divorces on a campaign poster – and politically coherent. The SPD and the Greens talk of a new energy tax, but still fail to show how they could fund all their promises to cut taxes and repeal some Kohl welfare cuts.

Meanwhile, an impressive list has been piling up of international problems that requires Germany's voice – Russia, the new political vacuum developing in Washington, and key European Union reforms. Messrs Kohl and Schröder first need to speak clearly to their electorate, and then just as urgently the victor needs to address the world.

Settling scores

Europe took its first steps towards the creation of a unified equity market earlier this summer when the London and Frankfurt stock exchanges announced plans to link their trading systems. It is now time for the plumbing to follow suit, initially with the development of a channel between Crest, the settlement system for the London market, and Sega, its Swiss counterpart.

Important details need to be clarified. The legal basis of cross-border securities ownership will be complex. Moreover, the link needs to must cope not merely with the transfer of securities but with stamp duty, dividend distributions, stock splits and voting rights.

Still, it is hard to quibble about a plan that promises to cut settlement costs for a British investor buying Swiss shares from £20 or more to 60p. The gain may be insignificant for the big investment banking battalions, who have probably already hammered this sort of tariff out of their custodians. For the small- and medium-sized broker, it is considerable. For the private investor, once the link comes into operation late next year, it should be as *straightforward to trade in* Nestlé as in Glaxo.

The next step, and it must be taken quickly, is to build a similar link between Crest and Deutsche Börse Clearing, the settlement arm of the Frankfurt equity and derivatives exchanges. Without an effective settlement link, the grand alliance between the exchanges will be hamstrung.

Linking with Germany will be technically more difficult than linking with Switzerland. The Crest and Sega systems have more in common with each other than with DBC, both functioning on real time rather than batch processing. But it is critical that these technical obstacles are not compounded by political ones.

In early exchanges between the two sides, there have been worrying signs of jostling for the best seat at the table. Rolf Breuer, chairman of Deutsche Bank and also of Deutsche Börse, injudiciously suggested that the *German system should eventually* take over settlement for the entire European market, drawing a predictably bristling response from Crestco.

Such posturing is unhelpful. Ultimately, market users will not want to finance 15 competing settlement systems, any more than they want to finance 15 competing exchanges, but for the foreseeable future, legal and tax differences make it unlikely that national securities depositories will give way to a single settlement system. It is important that London and Frankfurt recognise this, as they now appear to, and negotiate in the interests of the market *as a whole, rather than of* their own competitive advantage.

Moral debt

Africa has attracted too little private capital for the crisis engulfing emerging markets to have much direct effect. Rich countries and multilateral organisations are Africa's creditors, not foot-loose investors. Its external debt is too large for it to bear, but too *small to concentrate* the minds of policymakers whose priorities lie elsewhere. This will not do. Finance ministers meeting in Washington later this month must take urgent steps to restore the credibility that current initiatives sadly lack.

The World Bank/International Monetary Fund *plan to* help 40 nations classified as highly indebted poor countries was launched amid much optimism, not least because it recognised that the burden of debt on the world's poorest countries is intolerable. In sub-Saharan Africa, home to most of the HIPC countries, external debt has *climbed* to more than two-thirds of the region's gross domestic product.

Two years later it is clear HIPC is not *working*. Too little has been achieved too slowly. Despite a two-year extension for countries that have not yet done so to sign up, the initiative has clearly run out of steam. Part of *the* problem is that countries must meet overly rigid criteria *before* they are eligible for relief. Hardly any *has* been given to date.

Of course relief must be conditional. It would be counter-productive to forgive debts if the proceeds are channelled to the military or stolen by corrupt politicians. Despite the good intentions *of those* involved in the Jubilee Coalition campaign, simply writing off all the debts at a stroke is neither practical nor sensible.

But there is a moral obligation to help those countries that are committed to reform. The human cost of waiting for final proof is too *high. Oxfam has* proposed a "human development window", providing quicker and deeper relief for countries that commit the proceeds to tackling poverty. Uganda has shown how such an approach could work. It has unilaterally ring-fenced debt relief for a poverty eradication plan concentrating on *primary* education and healthcare, and will open its books to prove the commitment is met.

This framework should be extended across Africa, with relief suspended where it is squandered. The sums involved in forgiving debt are not trivial – the World Bank *estimates* debt relief will cost at least $8bn, and many economists think the final bill will be higher. But the scale *of* the Asian bail-out dwarfs even the highest estimates. Africa's debt might seem like a distraction amid growing international turmoil. In financial terms this is true. *In welfare terms it is far* more significant.

Wake-up call for Greenspan

With world markets falling and the possibility of western financial turmoil growing, Robert Chote looks at the pressures building up on the chairman of the US Federal Reserve

"Gentlemen, in the little moment that remains to us between the crisis and the catastrophe, we may as well drink a glass of champagne."

It was in summer 1931 that the French ambassador and poet Paul Claudel addressed those words to an upbeat gathering of diplomats in Washington. The prescient Claudel could see that far from turning the *corner* after the stock market crash of 1929, as many in his audience thought, the west was then entering a period of dangerous economic instability aggra*vated by a lack of political leader*ship.

Though there has been no equivalent to the Wall Street crash, much of this sounds unnervingly familiar, even down to the upbeat mood. So far the financial crisis that has ripped through Asia and Russia has been largely beneficial to the rich economies of Europe and the US, blowing them a welcome breeze of disinflation. But as the crisis spreads and deepens, the mood in the West is changing from complacency to anxiety. With Japan trapped in deflation by political inertia, and Europe preoccupied by economic and monetary union, the US is the only place to look for political leadership – and there it is conspicuous by its absence.

"It is of the utmost importance that the only world power fully live up to its duties," Helmut Kohl, the German chancellor, warned last week. "I can only hope the [political] turbulence in Washington can be put to rest as quickly as possible."

But with both president and Congress otherwise engaged, it is *Federal Reserve chairman* Alan Greenspan to whom people look for salvation in the form of lower US interest rates. The pressure is growing on Mr Greenspan to cut rates, perhaps in concert with other large economies.

If he were to do this, it would help highly indebted emerging *markets directly by lowering* the servicing cost of their foreign debt. If it also leads to a fall in the value of the dollar, it should help take some of the pressure off their currencies. And it could help them indirectly by pushing up demand for commodities and raw materials.

So what is the likelihood Mr Greenspan will oblige?

In a speech 10 days ago he conceded that the recessionary impact of "dislocations abroad" meant the next move in rates might be down rather than up. "It is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress," he said.

But Mr Greenspan's remit is the US not the world, and the *purely domestic case for lower* rates is far from clear cut. The unemployment rate is only 4.5 per cent. Some measures of inflation have troughed. The after-tax incomes of the personal and corporate sectors are still growing at almost 4 per cent a year. And growth in domestic spending remains unaffected by the Asian crisis, driven by stock market gains that added $6,000bn to household net worth between early 1995 and the second quarter this year. All these indicators suggest the US is still growing strongly and does not need lower rates.

Of course, Wall Street has *fallen, which could affect growth.* Mr Greenspan warned in late *July that stock market valua*tions would be hard to sustain, since when there has been a more sober assessment of the outlook for profits. The Dow Jones Industrials has fallen over 14 per cent since its July peak. The Organisation for Economic Co-operation and Development calculates that a *20 per cent fall* in industrial country equity markets should reduce US economic activity by 0.6 per cent after two years – and wider equity ownership means this might be an underestimate. All the same, it is hard to imagine that Mr Greenspan would loosen monetary policy simply because of the recent partial correction of Wall Street's overvaluation.

Those who urge the Fed to hold fire point to the experience of 1987, when fears that *falling* share prices would strangle domestic spending prompted rapid interest-rate cuts in the US and Europe. When demand proved resilient, the central banks had to tighten monetary policy again to fend off inflation.

But this does not necessarily invalidate the case for looser policy now. Central bankers base interest-rate decisions not only on their best guess of the outlook for growth and inflation, but also a wider balance of risks. Taking a modest risk with inflation may be justified to guard against a threat to the stability of the financial system as a whole.

The question is: does that threat exist now? We are in the realms of possibility rather than probability, but the present international environment may pose exactly this sort of threat. This is very different from 1987. Financial markets are more volatile, driven by fear and uncertainty. *Economic cycles are less syn*chronised and moved more by private-sector behaviour than policymakers' decisions. Vastly expanded capital flows have forged closer links between developed nations and fragile emerging markets. And complex derivative instruments are facilitating the excessive leverage and borrowing that are intrinsic to all *financial crises.*

David Zervos, chief strategist with Greenwich NatWest in London, sees this as a potential source of systemic instability. He argues that the Mexican bail-out in 1995 organised by the US Treasury and International Monetary Fund fuelled a credit bubble, creating the impression that investors and banks in developed countries would be protected from big losses in the event of a default, a debt moratorium or a banking system failure in an emerging market. This implicit IMF or western insurance policy meant that investors were willing to accept smaller spreads over their borrowing costs to lend into these markets.

'It is just not credible that the US can remain an oasis of prosperity'

But when Russia defaulted last month, and neither the IMF nor the Group of Seven leading industrial countries stepped in to save it, that implied the insurance policy had been cancelled. Investors were already showing greater risk aversion as the *Asian crisis unfolded*, but Mr Zervos argues that the abandonment of Russia has finally burst the credit bubble.

It is already clear, at least on a small scale how disruptive this can be. Several highly leveraged hedge fund investors faced big losses in Russia, prompting investment banks that had lent to them to demand bigger down-*payments (or "margin calls")* on their loans. The hedge funds had to abandon big bets on US share prices to meet these calls, prompting a downward lurch on Wall Street. This may be a portent of what is to come.

Mr Zervos believes the repricing of risk threatens what he calls "an Armageddon scenario". It could unfold as follows. The value of international debt securities totalled $3,600bn at the end of March, much of it used as col*lateral* (for example by hedge funds) on further loans worth around $30,000bn. In addition, the Bank for International Settlements believes that by the end of last year there was another $30,000bn in credit market exposure outstanding in interest rate swap agreements. These provide another source of leverage by allowing investors to swap fixed for floating interest-rate payments without owning the underlying debt. This implies that on a conservative estimate there is $60,000bn in global credit market exposure. Historically plausible increases in risk, argues Mr Zervos, could suddenly reduce the value of these assets by $1,500bn.

That could cause banks accepting debt as collateral to put out margin calls. And, says Mr Zervos, "If there were a failure of one or more large counterparties to meet the margin call, the resulting sale of collateral and liquidation of swap positions *could easily drive spreads* further and induce even more widening, more *margin calls* and a complete collapse in the credit market".

This may sound far-fetched. But when rumours that one US investment bank had failed seemed credible enough to cause jitters on Wall Street, it underlines the importance of *confidence in the financial system.* Lower interest rates would help banks directly, and also send a reassuring signal that the Fed is ready to provide liquidity if the financial system as a whole gets into trouble.

These considerations will no doubt be in the minds of policymakers as Brazil struggles to avoid devaluation or the imposition of capital controls. If Brazil were to devalue, this would increase the pressure on Mexico *and imperil* Argentina's currency board link to the dollar. This in turn would focus attention back on Hong Kong's dollar peg, threatening another round to Asia's financial crisis. Any of these events could have serious implications for even the biggest western financial institutions.

Mr Greenspan's recent comments have fuelled talk of a co-ordinated loosening of monetary policy. But Japan cannot loosen any further, the European Central Bank is nervous of its credibility and the other nations are too small to matter.

Rate cuts in the US are no cure-all, but they could ease pressure on emerging markets by weakening the dollar, reducing debt servicing costs and bolstering demand for commodities. The case for lower rates on purely domestic grounds may look weaker, but as an insurance policy against catastrophe the risk of repeating 1987's mistakes may *be one worth taking.*

OBSERVER

Battle is joined for Vienna role

The job sounds grand enough. But whoever becomes the European Union's "high representative" for foreign and security affairs will have to get involved in some rough politics.

The EU is committed to a *coherent foreign policy but has* struggled to find a meaningful response to crises, such as this year's problems in Russia and Kosovo. It won't be easy for the new Eurocrat to sort out priorities with 15 squabbling foreign ministers.

Retired British diplomat Sir David Hannay is the only nominee so far. There was a rumour that Elisabeth Guigou, the French justice minister who *used to be minister for Europe,* might stand, but this seems unlikely. France would have an uphill fight for another top job so soon after the tussle over the European central bank – in any case, Guigou may prefer her current high-flying job.

The Brussels rumour mill is *getting into gear and other* names are being bandied about – including Dick Spring, the former Irish foreign minister, Carlos Westendorp, the former Spanish foreign minister who is now the EU's representative in Bosnia, and Carl Bildt, the ex-Swedish prime minister who *preceded Westendorp in Bosnia.*

But some EU foreign ministers are thought to be unhappy about the prospect of a political bigshot stealing their thunder and making life generally uncomfortable.

If a career civil servant is wanted, one possibility is Joachim Bitterlich, diplomatic adviser to Helmut Kohl. But the prospect of the EU's biggest state having its man in one of the top foreign policy jobs will send some *pulses racing.*

Hannay is the front-runner among the diplomats, and Bildt – if he wants the job – among the politicians. But the horse-trading has barely begun and, in fine EU tradition, should carry on right up until decision-time at the Vienna summit on December 11-12.

Stock response

When times are hard, creativity often flourishes. Take Sergei Dott, the provocative east Berlin artist best known for hanging big, colourful daubs on buildings.

Berlin is squeezing every budget in sight to rescue its tottering finances, so Dott didn't bother seeking municipal aid for his latest venture. Instead, he *borrowed a trick from the finance* industry and framed an initial public offering of shares.

For DM270, investors can buy a slice of Dott's lurid ensemble of model pink cows grazing up the side of a building. The 200 share certificates will be works of art in their own right: they are *prints signed by the artist.*

It's all a bit of a shock to Berlin's art establishment, which has spent decades living off generous public subsidies and could afford to sniff at any association with the grubby world of finance.

With the Germans maintaining their new-found love of stock markets despite recent turmoil, Dott thinks he is in tune with the new *Zeitgeist.* He'll have to come *up with a secondary market and* a few derivatives first.

Net scope

Japan's local authorities might be facing a new cash crisis, but at least they're doing so in a thoroughly up-to-date way.

As Kanagawa, the Japanese prefecture that includes Yokohama, declared that it faced a "financial state of emergency" yesterday, it decided to do it in style – and post the details of its plight on the internet.

In a cheerful, brightly-coloured web page, not matching its sombre content, Kanagawa set out the details of its financial problems and told residents to prepare for public spending cuts. *And though the web page did* not quite spell it out, it implied that Kanagawa would not easily be able to fall in line with central government orders to raise spending in the future.

Just how many Kanagawa residents are actually able to hook into the internet to see this *appeal is unclear:* in Japan, penetration of the internet remains minimal. But other authorities across Japan will be able to see Kanagawa's appeal quickly and easily – and copy it if they wish.

Stand by for plenty of distressed – and colourful – Japanese local government web sites.

Making tracks

If a junior minister at a foreign ministry near you starts setting up a goodwill mission to Baghdad, the chances are you're in one of the 27 countries that are members of the Antarctic Treaty.

The accord, intended to *safeguard the inhospitable region* from environmental ruination, was signed in 1959 and seems to have rubbed along well enough without a ministerial gabfest. But now the ministers are to have their first get-together, dreamed up by former New Zealand prime minister Jim Bolger. And it won't be in downtown Wellington; it's going to be in Antarctica.

New Zealand junior foreign *minister Simon Upton, who*'s to host the meeting, says delegates will be based either at Scott Base or McMurdo, where they can look forward to chipping the ice off their pajamas before starting the day's work. Topics for discussion include the pressures of increasing numbers *of visitors.* Such as groups of well-meaning ministers.

The Financial Times

100 years ago

Chilian Militia Called Out
After the slump in Argentines and Chilians (stocks) yesterday on the news that 50,000 of the Chilian Militia had been called out by the President, the *market recovered somewhat* on the assumption that a bear raid on a very large scale was in progress. To a certain this is true, but it is a bear raid of a rather unusual kind. Chile has offered to submit the whole matter of the boundary dispute to arbitration. Argentina *refuses to do so until* the whole matter has been threshed out by the Commission, in the belief that delay must benefit her, since Chile is in desperate straits already.

50 years ago

US Protest To Romania
Washington, Sept 14. The United States to-day accused *Romania of carrying out* "serious discrimination against the rights of United States nationals" in its recently enacted legislation for the nationalisation of industrial, banking, insurance, mining, transport and other enterprises. In a note delivered a week ago, America protested that Romania had "clearly violated" its obligation to afford most-favoured-nation treatment.

FINANCIAL TIMES

TUESDAY SEPTEMBER 15 1998

THE LEX COLUMN

Real maths

Brazil's huge rise in interest rates may have temporarily stemmed the risk of devaluation. But there is a danger that the crisis will simply shift locus – to concern about default.

The maths are daunting. Around 60 per cent of Brazil's R$340bn ($290bn) domestic debt is linked to overnight rates. Last week's increase to nearly 50 per cent has the effect of adding $70bn a year – or 9 per cent of gross domestic product – to an already unsustainable budget deficit of 7 per cent. As if that were not enough, much of the debt is of extremely short maturity: about $90bn is due to be repaid in the next two months. Given the outlook on the deficit, it is touch and go whether investors will be willing to lend large sums of new money. Indeed, today's weekly debt auction has been cancelled because of the turmoil.

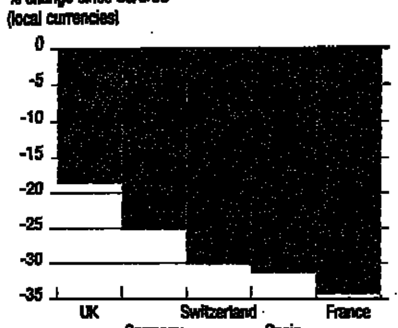
If investors fail to lend enough new money, Brazil will be staring default in the face. Its foreign exchange reserves – which are barely $50bn following the recent weeks' capital flight – are not enough to pay off the maturing debt.

What is to be done? The centrepiece of any solution will have to be sweeping fiscal reform. If Brazil credibly promised to cut its federal deficit – say by 4 per cent of GDP – that might be enough to regain investors' confidence. Rates could then fall, cutting interest payments and the deficit – and so on in a virtuous circle. The snag is that Brazil will find it hard to give credible fiscal promises before next month's election. And if confidence evaporates in the meantime, the remaining options are unpalatable. One would be to allow the real to devalue. This might give some relief on interest rates. But if the country was to avoid a complete slide in the currency and hyperinflation, they could not be cut quickly. Moreover, the debt problem would still be there. Indeed, with about 30 per cent of the debt linked to the dollar, a devaluation would in some ways worsen the situation.

Another option would be to ask the International Monetary Fund for a bail-out. Unfortunately, the fund does not have enough cash to underwrite the entire debt coming due. And, while it would probably be willing to subscribe a smaller sum, an inadequately-funded rescue package would risk being blown away by the market.

The remaining options are, if anything, even more ghastly: a debt moratorium while Brazil tries to negotiate a lengthening of its maturity profile; or the imposition of Malaysian-style capital controls. Brazil is living on borrowed time.

European banks' indices
% change since 30/6/98 (local currencies)



Source: Datastream/ICV

European Banks

The roaring bull market in European bank stocks has come to a juddering halt. A mournful cocktail of concern about credit and trading losses in emerging markets has eclipsed the euphoria that helped prices more than double in the 18 months to the mid-year. For now at least, the twin drivers of growth and consolidation have fallen from view. European bank stocks are more than 30 per cent below their highs in late July, erasing all 1998 gains.

The snag for investors is that punishment has been fairly indiscriminate. It is fair enough to hit those most obviously exposed to emerging markets and investment banking – Credit Suisse obviously fits both categories, as do German banks like Deutsche and Dresdner. Likewise, Spanish banks BBV and Santander have suffered for their high exposure to Latin American risk. But does UBS deserve to fall the same amount as Credit Suisse? Should sleepy regional banks be caught in the cross-fire?

This broadly based sell-off therefore presents investment opportunities. The likes of Deutsche and Dresdner, for example, are back at valuation levels that predate their discovery of the elixir of shareholder value. Alas, such facts alone may not translate into better performance. In the next few months investors will have to get used to the unfamiliar prospect of earnings downgrades, with capital markets profits likely to suffer especially badly. Arguments of relative value may provide small comfort.

At a time when curbing risk matters more than boosting returns, it may be a case of the more boring and domestic the better. The big rally in Italian banks yesterday, and likewise in the shares of a domestically-oriented stock such as Bayerische Vereinsbank, suggests investors may be cottoning on to this.

British Borneo/Hardy

Ever since British Petroleum and Amoco showed that the big guys of the oil industry saw the virtues of consolidation, it has seemed only a matter of time before smaller players would join in. Hardy Oil & Gas certainly deserves to be a target. Its shares had plummeted to little more than 160p, nearly 30 per cent less than the June rights issue price. Capital spending has jumped to £90m a year, while it is losing money. And there has been confusion over its direction, with its deal-making chief executive doing no deals. Nevertheless its potential production from 2000 onwards, reflected in net assets per share estimates around 230p, offers attractions to a stronger partner. Perhaps the directors should have focused on getting the highest offer rather than a comfortable one.

But is British Borneo wise to take Hardy on? Yesterday's 13 per cent fall in its shares indicates nervousness. Its imminent earnings from offshore fields in the UK and the US represented a relatively safe haven in a depressed sector. In less risk averse times a diversification plan would go down well. Now there will be worries about overstretch. A deal with more overlap, and more scope for cost-cutting, would probably elicit a more positive response.

The tantalising prospect is that this is just the beginning of deals involving small to medium sized players. Another offer may emerge for Hardy and British Borneo itself is not safe.

Bank of Japan may raise bond purchases by 50%

Move would bring about further loosening of monetary policy

By Gillian Tett, Paul Abrahams and Deborah Haynes in Tokyo

The Bank of Japan is considering injecting more money into the country's ailing economy by increasing its monthly purchases of Japanese government bonds from Y400bn to Y600bn ($2.75bn to $4.1bn), officials have indicated.

The move, if it goes ahead, would bring about a further loosening of monetary policy, as the Bank would pay for the bonds, known as JGBs, with additional cash.

It comes after the Bank announced last week that it wanted to reduce the overnight call rate – the money market rate – from around 0.5 per cent to a new record low of 0.25 per cent to stave off the risk of a deflationary slump.

Any move by the Bank will be watched closely by the markets, because an increase in liquidity injections could weaken the yen and drive bond prices even higher. The yield on 10-year benchmark JGBs yesterday closed at 0.78 per cent, a new record low.

Government officials yesterday denied that the central bank had made an official decision to change policy. Over the past year the Bank has been buying about Y400bn of JGBs through two auctions each month in the secondary market, as part of its so called "rinban" operations to inject cash into the economy. However, the Bank is now "actively considering" holding three auctions a month to buy a total of Y600bn of bonds, a government official said yesterday.

Bank officials have also indicated that they are considering buying commercial paper from banks for the first time to inject additional liquidity into the economy.

If the Bank's bond purchases are raised to Y600bn, this would bring the total of JGB purchases by core government bodies to a record Y800bn a month. The Trust Fund Bureau, an arm of the Ministry of Finance, also started buying Y200bn worth of JGBs a month this year.

William Campbell, an economist at JP Morgan said: "Y800bn a month is an unprecedented level. The long-term implication of this is that the Bank is taking the first steps to monetise the government's debt [expand the money supply to reflate the economy]." Consideration of further steps to expand the money supply come as some government officials are expressing growing alarm about the recent downturn in the economy and the risk of more turmoil in the financial sector. The reluctance of many hard-pressed banks to lend money is causing a credit crunch, particularly among small and medium-sized businesses.

Data published yesterday showed that bankruptcies rose in August, the 20th month of year-on-year increases. Figures released by Tokyo Research Centre show the year-on-year number of bankruptcies increased 13.4 per cent to 1,463.

Analysts said the actual number of failures was not as worrying as the scale of the companies' debts, which jumped 60 per cent to Y1,320bn.

Andrew Shipley, an economist at Schroders, said the stimulus to aid struggling companies had come too late. "Pumping money into banks to encourage loans is an unpopular move because returns are so pitiful."

Japan's new warriors, Page 20
Observer, Page 21
Bonds, Page 34

$50m desert casino will leave Palestinians out in the cold

By Judy Dempsey in Jericho

In parched desert, beside a refugee camp near the dusty town of Jericho, a glittering $50m casino will open tomorrow night.

The "Oasis", as it is called, is one of the largest foreign investments in the territory ruled by the Palestinian Authority since its establishment under a peace deal with Israel nearly four years ago. But admission is for foreign passport holders only, including Israelis.

Casinos Austria, the world's largest international casino chain, has spent $50m on the 1,642 square metre gaming area, which houses 35 tables, 220 slot machines and several entertainment lounges.

A further $100m will be spent on a five-star hotel, tennis courts and a golf course. The project is backed by a consortium of bankers and private investors, including unnamed Palestinian ones, and will be managed by Casinos Austria.

But few know where the water supply will come from. In recent weeks, during one of the hottest summers for many years, ordinary Palestinians suffered serious water shortages. They are already dependent on Israel for most of their water supplies, and most analysts believe the problem will become more acute in the foreseeable future.

When the Oasis management team flew into town yesterday to prepare for the opening, officials and staff spoke English and Hebrew; the public relations material was in these two languages only and even the catering was Israeli.

Not a single PA representative or any other local Palestinian official was present yesterday. The foreign engineers, technicians and dealers stayed in Jerusalem or the Jewish settlement of Ma'ale Adumim near Jericho. Oasis management said there was no room in Jericho.

The public relations people said the Palestinians did not want to be around "when the press came". "They will come for the opening night," said one.

But not to play. Alexander Tucek, Oasis director general, said Yassir Arafat, PA president, had decided on foreign passport holders only. "Besides, it's our practice in other countries as well. Locals are not allowed in. We are aiming at Israelis and tourists."

Peter Herzfeld, chief executive office of Casinos Austria, said his company, noted for its "corporate ethics" had "taken into consideration the spiritual, religious and cultural specificities" of the region.

"It is a money-spinner for the rich and not for us," said Mustafa, a 35-year-old Palestinian shopkeeper.

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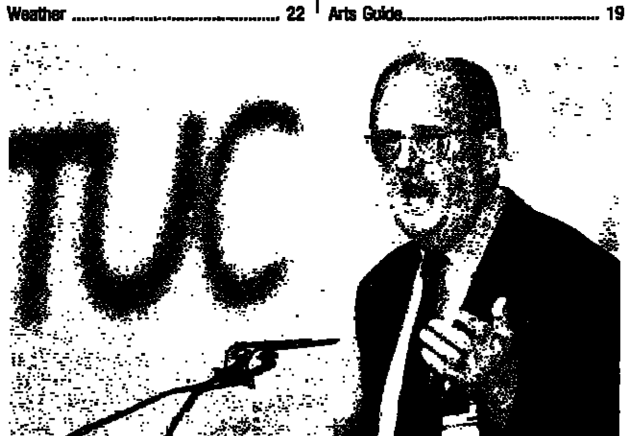

John Edmonds, president of Britain's Trades Union Congress, attacked boardroom greed as 'the politics of the pig trough'. Report, Page 14

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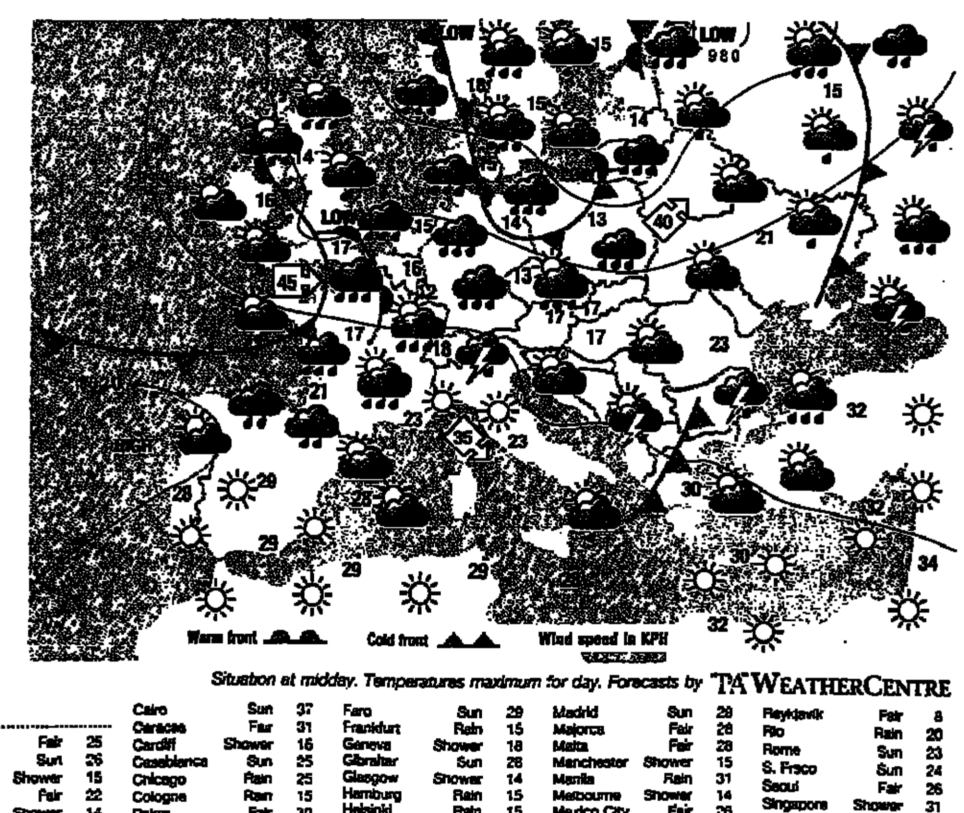
FT WEATHER GUIDE

Europe today

Denmark, southern Sweden and Norway and much of Finland will have a a cloudy day with outbreaks of rain. Germany, the Low Countries and northern France will be cool, windy and wet. This rain will spread to the Alps and southern France during the day where it is likely to become heavy and thundery at times. Western Russia through to the Balkans and most of the Mediterranean will be mainly fine. Thunderstorms are likely over Greece and Bulgaria.

Five-day forecast

It will remain cool and unsettled with widespread showers over much of Europe until Wednesday. After mid-week, a weak ridge of high pressure will bring a brief respite of sunshine to western and central Europe. This will move into eastern Europe later in the week.



Situation at midday. Temperatures maximum for day. Forecasts by TA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

City		°C
Abu Dhabi	Sun	37
Accra	Cloudy	27
Algiers	Sun	29
Amsterdam	Rain	15
Athens	Fair	30
Atlanta	Sun	31
B. Aires	Sun	16
B.ham	Shower	16
Bangkok	Rain	32
Barcelona	Fair	25
Beijing	Sun	26
Belfast	Shower	15
Belgrade	Fair	22
Berlin	Shower	14
Bermuda	Fair	30
Bogota	Shower	19
Bombay	Rain	32
Brussels	Shower	15
Budapest	Fair	17
C.hagen	Rain	15
Cairo	Sun	37
Caracas	Fair	31
Cardiff	Shower	16
Casablanca	Sun	25
Chicago	Rain	25
Cologne	Rain	15
Dakar	Fair	30
Dallas	Thunder	30
Delhi	Cloudy	29
Dubai	Sun	39
Dublin	Shower	16
Dubrovnik	Fair	22
Edinburgh	Shower	15
Faro	Sun	29
Frankfurt	Rain	15
Geneva	Shower	18
Gibraltar	Sun	28
Glasgow	Shower	14
Hamburg	Rain	15
Helsinki	Rain	15
Hong Kong	Shower	32
Honolulu	Fair	32
Istanbul	Fair	28
Jakarta	Fair	33
Jersey	Rain	19
Johannesburg	Cloudy	21
Karachi	Sun	35
Kuwait	Sun	43
L. Angeles	Sun	28
Las Palmas	Fair	28
Lima	Cloudy	20
Lisbon	Sun	28
London	Rain	17
Lux.bourg	Rain	12
Lyon	Shower	18
Madeira	Fair	27
Madrid	Sun	28
Majorca	Fair	28
Malta	Fair	28
Manchester	Shower	15
Manila	Rain	31
Melbourne	Shower	14
Mexico City	Fair	26
Miami	Rain	31
Milan	Fair	23
Montreal	Shower	25
Moscow	Shower	15
Munich	Rain	16
Nairobi	Fair	27
Naples	Fair	24
Nassau	Shower	32
New York	Fair	31
Nice	Sun	23
Nicosia	Sun	32
Oslo	Rain	18
Paris	Rain	17
Perth	Sun	21
Prague	Rain	13
Rangoon	Rain	31
Reykjavik	Fair	8
Rio	Rain	20
Rome	Sun	23
S. Frsco	Sun	24
Seoul	Fair	26
Singapore	Shower	31
Stockholm	Fair	15
Strasbourg	Rain	16
Sydney	Fair	20
Tangier	Sun	29
Tel Aviv	Sun	34
Tokyo	Rain	27
Toronto	Fair	26
Vancouver	Shower	20
Venice	Sun	21
Vienna	Shower	17
Warsaw	Thunder	13
Washington	Sun	34
Wellington	Rain	14
Winnipeg	Sun	21
Zurich	Shower	15

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INSIDE

Northern Telecom to shed 3,500 employees worldwide

Northern Telecom, the Canadian telecoms equipment maker, *confirmed rumours it would* lay off about 3,500 employees worldwide – cuts that would affect all of its business arms except data networks. Analysts said the lay-offs raised questions about Nortel's recent US$7bn acquisition of Bay Networks, the US networking equipment manufacturer. Page 29

Textron spending spree to continue

With its $7.5bn investment spree over the past five years, Textron, a US industrial group with interests from golf carts to some of the world's fastest jet aeroplanes, can hardly be accused of lack of action. Now, says Lewis Campbell (left), chief executive, the company is planning to keep up the momentum by spending a further $4bn on acquisitions by 2002. Page 29

Oil groups try to find right mix

Although emerging markets represent the future for many in the global oil sector, too heavy a weighting towards the developing world is seen by some investors as a cause for concern, given current economic turmoil. Finding the right level of exposure is key. Page 26

Derivatives exchanges eye alliances

The main concern of the meeting of derivative market specialists in Switzerland last week was the next stage of the trend towards global alliances, among both derivative and equity exchanges. Capital Markets, Page 34

Honda takes the helm in China site

Foreign carmakers' frustration with the Chinese sector was typified by Peugeot's Guangdong plant: the venture proved to be a financial drain and the market a disappointment. But Honda, the Japanese carmaker that has paid $200m to take over the site, is hoping to draw a line under the Sino-French failure. Page 24

Brokers bullish over Greek shares

Though turnover on the Athens stock exchange has shrunk since the Russian crisis began, brokers are confident that a matching fall in prices can be avoided. Stability is crucial if Greece's bid to enter Europe's single currency is to be successful. The government of Costas Simitis (left) sees the flotations that are planned over the next year as central to its structural reform package. Emerging Market Focus, Page 46

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MARKET STATISTICS

Tellabs abandons attempt to buy Ciena

Sharp drop in fibre-optics group's share price scuttles negotiations

By Roger Taylor in San Francisco

Tellabs, the US telephone equipment company, yesterday announced it had abandoned its attempt to buy Ciena, the fibre-optics group, as Ciena warned of a worsening financial outlook.

The deal, already renegotiated once in response to Ciena's weakening share price, collapsed after shares plummeted on news last week that Ciena had lost its second contract in recent weeks.

The share price has now dropped 85 per cent since July. Michael Birk, Tellabs chief executive, said he had decided late on Sunday night that there was no way to make the deal work, but he added that the companies parted as friends. No break-up fees will be paid.

"The tea-leaves just were not right for us," Mr Birk said, adding that Tellabs and Ciena might look at other ways to work together "once the dust had settled".

Tellabs originally agreed to buy Ciena in June in an all-share deal valued at $7bn. In August, a profits warning by Ciena and the loss of a contract with AT&T, the long-distance phone company, caused Tellabs to cut its price to $4.5bn.

However, last week's news that Ciena had failed to win a contract to supply optical equipment to Digital Teleport of St Louis caused Ciena's shares to fall heavily again, prompting speculation that the deal might have to be reworked for a second time.

In an attempt to bolster confidence, Ciena yesterday also announced a reorganisation of its sales and marketing effort. It said it had $300m cash on its balance sheet and remained confident of its prospects as an independent company. However it added that it would consider any offers that were made to it.

Data networking groups such as Cisco, which has worked with Ciena on a number of projects, have been suggested as possible suitors.

Tellabs president Michael Birk, left, shaking hands with Ciena president Patrick Nettles when the merger was launched in June AP

Ciena has been a leading producer of dense wavelength division multiplexers (DWDM) – devices that allow telephone companies to send many different signals down an optical fibre.

It is the only company to have a 40 wavelength machine, which allows up to 40 signals to be sent on one fibre.

The impact of growing competition in the DWDM market was revealed in Ciena's third-quarter results yesterday, which showed earnings per share of 15 cents, less than half the 34 cents achieved in the same period last year.

The company said it was lowering its target gross margins from 52-55 per cent to 45-50 per cent to reflect the new environment, and added that it might not hit these targets in the short term.

Tellabs shares fell more than 16 per cent early yesterday after Mr Birk said there was a risk that third-quarter earnings were unlikely to beat analysts' expectations and could even fall slightly below them.

Tellabs shares were yesterday down 7\frac{1}{16}$ in early trading at 37\frac{5}{16}$ in heavy volume.

Bond turmoil hits Barclays Capital

By Edward Luce and Vincent Boland

Barclays Capital, the UK investment bank, is running into difficulties in financing a Fl 1.2bn ($590m) exposure to the European leveraged buy-out sector because of turmoil in the European bond market.

It arranged financing for the buyout of the Dutch group Kappa Packaging by Cinven and CVC, the venture capitalists, earlier this year, and had hoped to re-finance its loan with a high-yield bond issue in *the next few weeks.*

But investors have fled high-risk assets for cash and government bonds, and when the market re-opens, the costs for big borrowers are expected to be punitively high.

Barclays played down concerns about the exposure, saying it was confident about the financial strength of Kappa and its commercial prospects.

But fears are growing about the health of other prominent deals in the Europe's fledgling leveraged buyout market. Between 10 and 15 borrowers have effectively been shut out of Europe's high-yield bond markets by the turmoil. This deprives them of access to a vital element of financing to fund leveraged acquisitions.

Kappa, which was bought for Fl 3.4bn, was planning to refinance Fl 1.2bn of the acquisition costs with a high-yield bond issue. This tranche is held by Barclays Capital in the form of mezzanine financing - *effectively a bridge loan to the* buyers until the bond markets re-open.

In a typical leveraged buy-out, the short-term loan contains penalty clauses, dubbed an "exploding bridge", which push up the cost of the debt the longer it takes to refinance. Barclays has no such clauses in its exposure to Kappa.

Bankers say the closure of the high-yield market will lead to a slowdown in the develop*ment of a European* leveraged finance market by pushing up costs for investment banks and the leveraged buyers.

The downturn comes after 12 months of heavy European investment by US players in the expectation that activity would boom in advance of monetary union next January.

Other deals which could be affected include Herberts, the German chemicals company, which was sold to Kohlberg Kravis Roberts, the US private equity company, by Hoechst for DM3bn ($1.66bn) earlier this year. Part of the deal is expected to be re-financed in the European bond markets.

Fuji Bank, which arranged the debt package for the £510m ($832m) leveraged buy-out by Doughty Hanson in July of BTR Aerospace, the aerospace division of the UK conglomerate BTR, is also understood to be affected.

NTT DoCoMo details offering

By Michiyo Nakamoto and Paul Abrahams in Tokyo

NTT DoCoMo, the world's largest mobile telecoms company, yesterday formally announced its initial public offering and intention to list on *the first section of the* Tokyo Stock Exchange in a move set to raise about $15bn.

The global issue, one of the biggest this year, will involve the sale of 545,000 shares, of which 327,000 will be new and 218,000 sold by NTT, the fixed operator which owns 94.68 per cent of NTT DoCoMo. After the issue NTT will own about 67 per cent of NTT DoCoMo.

Depending on demand, about 69 per cent of the shares will be sold in Japan, 12 per cent in the US and Canada, and 18 per cent in other territories.

In the prospectus sent to potential investors yesterday, NTT DoCoMo warns of increasing competition that could force down call rates and *said there was no guarantee it* could maintain its dominant position in the Japanese cellular phone market. The company has a market share of about 56 per cent.

The prospectus said operating revenues have increased at a compound annual growth rate of 48.2 per cent in the past three years. In the year ending in March 1998, the group generated operating profits of Y413bn ($2.95bn). Earnings before interest, taxes, depreciation and amortisation rose 58 per cent year-on-year to Y815.9bn. Net income jumped threefold to Y120bn during the period.

Turnover rose 33 per cent year-on-year to Y2,628bn as the *subscriber base rose* from 10.9m to 17.9m.

The group's debt has risen sharply in recent years, as it invested in its network, from Y679bn in 1996 to Y1,373bn last year, equivalent to 1.7 times last year's earnings before interest, taxes, depreciation and amortisation. The group warns it will need to invest in greater capacity to support increased voice and data transmission. Capital spending is expected to increase from Y398bn *last* year to Y451bn this year.

DoCoMo, which plans to launch advanced mobile communications services in 2000 based on the next generation W-CDMA mobile communica*tions standard, intends* to use Y183.7bn of the proceeds it is due to receive from the IPO on capital investment. A further Y376.6bn will go towards reducing debt and another Y390bn will be provided to subsidiaries as loans.

Pre-marketing of the issue, co-ordinated by lead managers Nikko Securities and Goldman Sachs, will take place until September 21, when the price range should be announced.

Old Mutual in talks on making main listing in London

By Victor Mallet in Cape Town

Old Mutual, the South African life assurer and asset manager that plans to demutualise next year, has begun negotiations with the South African authorities over controversial plans to move its domicile to London and make its primary stock exchange listing there, instead *of Johannesburg.*

Announcing the group's annual results, Mike Levett, chairman, said Old Mutual was talking to the South African Reserve Bank – the independent central bank – about the listing proposal. But he also alluded to the political objections raised by the African National Congress-led government, which is concerned about the eagerness of big South African corporations to quit their home base and about possible capital flight.

"You're dealing fundamentally on the matter with the Reserve Bank, but the Reserve Bank is only managing the foreign exchange controls on behalf of the minister [of finance]," Mr Levett said.

Old Mutual executives are telling the authorities that a primary listing in London will make it easier for the group to raise funds from international investors.

They say it would also boost foreign demand for the new shares when the group demutualises, which would benefit more than 3m policyholders in South Africa.

"We will be seeking to get as good a demand for the shares from institutional investors as possible," Mr Levett said when asked about the possible London listing. "We will do what we can to try to maximise the demand for those shares and thereby increase the value."

Last week, Sanlam, the rival life assurer set to demutualise this year, said it could be valued at between R14bn and R18bn, ($2.2bn and $2.8bn) lower than expected because of the weakness of the Johannesburg Stock Exchange. Old Mutual is likely to be worth twice as much. About a third of its policyholders are likely to want to sell their shares immediately.

In the year to June 30, Old Mutual increased total assets by 31 per cent to R308bn, a figure that will increase to *about R360bn after the acquisi*tion of Albert E. Sharp, the UK regional stockbroker to be merged with Old Mutual subsidiary Capel-Cure Myers. Premium income rose 14 per cent to R31bn, and Mr Levett said he believed Old Mutual had increased market share.

About 40 per cent of assets are overseas but the group is taking a cautious approach to international expansion. Garth Griffin, director for overseas operations, said yesterday that the aim was to establish niche retail financial services businesses and a solid asset management base. "We don't have a great, grand acquisition strategy," Mr Griffin said.

Deere and Hilton profits hit as global crisis bites

By Richard Tomkins in New York

Profits warnings from two prominent companies in widely diverse sectors provided disturbing evidence yesterday of how global economic problems are beginning to impinge on the US economy.

Deere, the farm machinery maker based in Moline, Illinois, warned that it expected to report lower profits for its fiscal fourth quarter to October 31. It said it expected North American sales of agricultural equipment to plunge by 15-20 *per cent next year because of* falling worldwide commodity prices.

Meanwhile Hilton Hotels, the hotel and casino group, announced that profits in the third quarter to September would be lower than expected, partly because fewer Asians were visiting its US hotels.

Hilton said the main reasons included a reduction in the number of Asian visitors to its Hawaii and San Francisco hotels and lower than expected management fee income from other worldwide hotels hit by Asia's economic crisis, especially the Conrad International Hong Kong.

Deere *also warned that it* expected next year's earnings to be no better than this year's, in spite of lay-offs and heavy cost-cutting. Its shares were down $1⅝, or 4 per cent, at 31\frac{9}{16}$ in early trading.

Deere blamed falling commodity prices on expected increases in carry-over stocks of grains and oilseeds from this year's crop. It said bumper crops in the Americas and a decrease in demand from Asia were the main factors behind *the expected increases in* inventories.

Deere said its fourth quarter output of equipment and machinery was 4-5 per cent lower than a year earlier, and production schedules would be adjusted in line with the expected 15-20 per cent decline in the industry's North American retail sales.

It warned that job losses were inevitable, although they would be kept to a minimum through the non-replacement of people who left or retired.

Hans Becherer, chairman and chief executive, said Deere planned to reduce costs by $100m next year. "And, though *it will be challenging, we have* set a goal of matching our 1998 earnings per share performance in 1999."

Hilton saw its shares tumble $$\frac{13}{16}$, or 4 per cent, to a new 12-month low of 18\frac{7}{16}$ in early trading after warning that third quarter earnings were expected to be "in the low 30 cent range", implying a downturn from 35 cents a year earlier. Analysts had been forecasting an increase to 38 cents.

On the casino side, Hilton *made an unusually high level* of pay-outs to gamblers at Bally's Park Place in Atlantic City and suffered continuing sluggishness in the Las Vegas market.

The Las Vegas casino industry has been hit by a downturn in the number of visitors, despite the surge that followed the opening of three big casinos five years ago. This has been made worse by a shortage of capacity on flights to the city as airlines have diverted aircraft to more profitable routes serving business travellers.

Malaysia's capital controls create investment challenge

Central bank measures aimed to insulate the economy could isolate the country from investment, writes **Sheila McNulty**

Just when investors thought they had Malaysia's market figured out – buy plantations, sell banks – the central bank imposed sweeping capital controls. Now there is a whole new way of looking at the country's corporate sector.

For one thing, analysts say, plantations are out and banks are in. With the ringgit pegged at M$3.80 to the US dollar, the foreign-exchange gains made by companies selling palm oil and other commodities in US dollars are not going to be as high for the full year as analysts had anticipated.

The ringgit was trading at more than M$4.00 to the US dollar when the central bank abruptly withdrew the currency from international circulation earlier this month. Analysts had been recommending plantation companies to investors, expecting the currency to head to M$5.00 and possibly beyond. Their profits would have risen accordingly when converted back into ringgit.

But now analysts say, in the short term at least, banks are set to gain. They had been shunned by investors for months as recession threatened to push non-performing loans to between 25-30 per cent of all loans by the peak of the crisis. Banks were short of liquidity, with much of their funds flowing offshore, either in search of foreign currency or ringgit deposit accounts in Singapore offering higher returns.

Malaysia is seeking to reverse that trend by ordering all ringgit outside the country repatriated by the end of the month or declared illegal tender. This has resulted in heavy inflows of ringgit which analysts believe will provide banks much-needed liquidity to resume lending.

That, in turn, will help the broad economy to curb the rise in non-performing loans. The shares of Maybank, the sector's leader, have gained steadily in anticipation of such improvements.

Not all economists are convinced the improvements will be sustainable, fearing many Malaysians will find a way around the restrictions. They also suspect it will be difficult to convince banks to resume generous lending while the economy remains in recession.

Song Seng Wun, regional economist at GK Goh Research, says there is a 50 per cent chance that the controls will work to revive the economy. But analysts point to the rally in the stock market since the controls were announced as proof that money is already flowing back into the country and Malaysian investors, at least, bet the measures will work.

Foreign investors, on the other hand, have steered clear of the market, as they are now barred from repatriating profits from the sale of shares for one year. Those locked in when the new rules went into effect have alternated between selling to protest against the measures, planning to leave the market in a year, and trying to determine what precisely the new rules mean.

Audrey Ho, head of research at Paribas Asia Equity, recommends foreigners stay in the market and capitalise on whatever gains can be made there rather than sell and earn nothing as they wait to repatriate their funds. Especially, she says, because many corporations are bound to benefit. They no longer have to hedge, because they know what the exchange rate will be and can focus more closely on running their businesses. Lower rates, already coming into effect, means those with domestic debt will have an easier time paying it off.

'Foreign direct investment is the backbone of the economy. I hope these are just stop-gap measures'

Analysts also say the few companies with large foreign debt, such as Tenaga, the national power utility, are major beneficiaries from the pegged currency. The construction sector is also poised to improve as the government attempts to stimulate the economy.

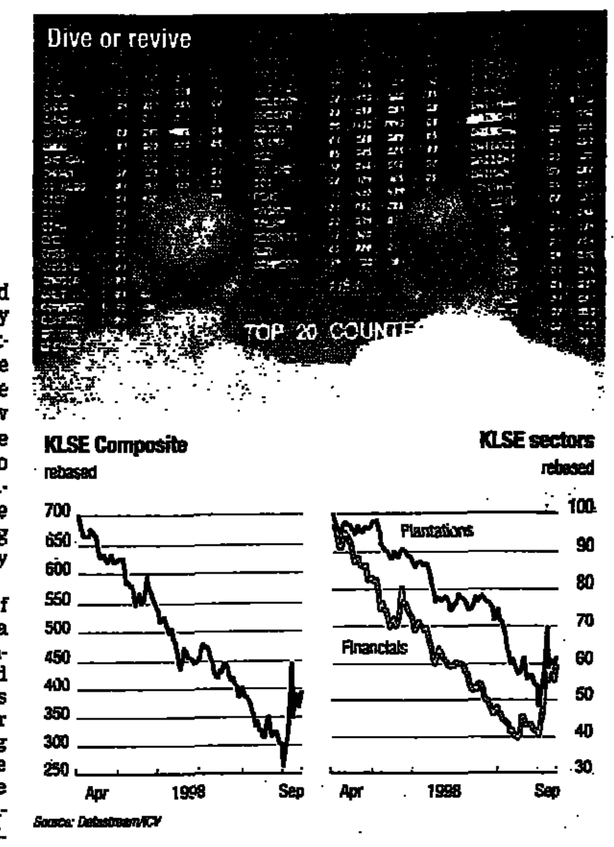
But analysts warn against expecting too much from companies such as carmakers, as few consumers will buy such expensive items until they are certain the crisis has abated and jobs are safe.

"Even though next year, theoretically, economists may be able to find positive growth, you won't see a big jump in consumer durables until the man in the street is confident," said Lai Tak Heong, research director at SG Securities.

Analysts do not expect an inflow of foreign investment to help Malaysians regain confidence. Morgan Stanley is removing Malaysia from the MSCI Developed Markets series at the end of the month, taking it off the radar screens of many equity investors. Analysts say foreign funds will not touch a market so controlled.

Beyond that, economists say, there is a risk that even direct foreign investment will be put off. "We may be able to insulate our economy, but we may inadvertently isolate ourselves," said Mohamed Ariff, executive director of the Malaysian Institute of Economic Research. "Trade is our lifeblood. Foreign direct investment is the backbone of the economy . . . I do hope these measures are just stop-gap measures."

See Capital Markets



Astra sells microchip subsidiary for $90m

By Sander Thoenes in Jakarta

Astra International, the Indonesian carmaker, yesterday said it had sold its semiconductor subsidiary to Newsbridge Asia, a US private equity firm, for $90m.

Newsbridge, which is backed by Texas Pacific Group and Richard C. Blum & Associates and manages more than $8bn in funds, took 100 per cent of Astra Microtronics Technology, which produces semiconductor products as a subcontractor for integrated circuit assembly lines and final test services. All of AMT's products are exported.

The deal is one of the largest in only a trickle of asset sales by Indonesian companies struggling to survive the economic crisis. Astra has also put up for sale stakes in its Sumalindo plantation subsidiary, its mining venture and a contract mining equipment company.

Astra, a partner of Toyota, Daihatsu and other producers, has stopped paying principal on some $2bn in offshore debt, which jumped in local value when the rupiah collapsed. However, contrary to last week's report in the Financial Times, the company says it is still current on interest payments. Astra is also cutting costs and offering its creditors a debt restructuring in October.

Rini Soewandi, Astra president, said yesterday she hoped Daihatsu would agree to increase its stake in a production joint venture to 45 or 50 per cent before the end of this month.

NEWS DIGEST

NEWS CORP

Murdoch's wife leaves board after separation

Anna Murdoch, who recently separated from Rupert Murdoch, News Corp chairman and chief executive, is to retire from the media company's board of directors. New of her retirement was contained in News Corp's 1998 annual report. When news of the couple's separation broke in April, the company confirmed that Mrs Murdoch would remain a director. Media analysts said her retirement from the board was not a surprise. "That's the most decorous outcome for the company and for themselves personally," said one. AP-DJ, Sydney

SECURITIES

Osaka suspends fund trading

Trading in the Latin America Smaller Companies Fund on the Osaka Securities Exchange was suspended yesterday following reports that a company in the fund had been liquidated. It was the first time trading in the fund had been halted, the OSE said. "We have received information that a company had been liquidated, and we are currently investigating the reports," the OSE said.

The fund has plunged 14 per cent since the beginning of this month amid growing concerns about financial stability in the region. It was last traded at Y575 on September 11, down from Y653 only a week before.
Alexandra Harney, Tokyo

MOTOR MANUFACTURING

Daewoo launches US drive

Daewoo Motor, the South Korean carmaker, said it would begin to sell cars in the US from the end of this month. It is aiming for unit sales of 50,000 by the end of the year, and 250,000 by the end of 2000. The US unit was established earlier this year.

Daewoo Motor America, the US unit, also signed a $2.5bn consumer financing contract with Debis Financial Services, a unit of Germany's Daimler-Benz, for its car sales in the US.

It also signed another financial service contract with Jackson National Life Insurance, a unit of Prudential of the UK, which would provide up to $300m revolving credit facility per year for the next five years.
AP-DJ, Seoul

Honda takes over the baton in China

Japan's carmaker is buying a loss-making plant in Guangdong from Peugeot, writes **James Harding**

The French are gone but not forgotten at their former car factory in Guangdong: the sign for the general manager's office is still in French, the cars in the parking lot remain mostly Peugeots and the shadow of more than $100m losses that finally forced the French carmaker to abandon the project now hangs over the new management.

The plant, on the outskirts of Guangzhou in southern China, has typified foreign carmakers' frustration in China, where joint-venture production has proved to be a financial drain and the market a disappointment.

But Honda, the Japanese carmaker which has paid $200m to take over the loss-making site, is hoping to draw a line under the Sino-French failure.

Koji Kadowaki, president of the new Guangzhou Honda Automobile, says: "We have experience of other Asian countries, so that is likely to mean a big difference with Peugeot. And our management style is different to the French. We will do our best to communicate with local people and share responsibility."

Part of what brought the Peugeot project to a halt was the sharing of responsibilities – and of control.

Company officials have said Peugeot's minority stake – roughly 22 per cent – meant French management had little control over the venture. By the time of Peugeot's withdrawal last year, production had slowed to 1,500 cars a year and the Chinese media were reporting losses of RMB1bn-RMB3bn ($120m-$360m).

Honda has arguably entered on better terms. It is in a 50-50 joint venture with the Guangzhou Automobile Group to build the Accord model saloon. Production is due to start in February and is limited to 30,000 units for the first three years and to 50,000 units after that. Honda is also in a 50-50 venture, with Dongfeng Motor, China's third largest automotive group, to build engines on the same site. Honda inherited the facilities, but not the debts, of the previous venture, Mr Kadowaki says.

Honda would like to have a bigger stake, says Mr Kadowaki. "If we had a chance, if the government allowed us, we would move immediately for majority ownership."

The weak yen has had a mixed impact on the cost of the investment for Honda. The payment of $200m to take over the plant has proved more expensive than expected as the Japanese currency has declined, but the further $100m spent on refurbishment and equipment has proved cheaper than forecast.

Only a few foreign carmakers have been admitted to the Chinese market. In Shanghai, Volkswagen is making Santana saloon cars and General Motors is due to start production of Buicks – likely to be the Honda Accord's chief rival. No new licences for carmaking joint ventures are expected until Beijing drafts its next five-year plan for the industry from 2000.

Peugeots are still rarely seen in China outside Guangdong, where production was based, highlighting problems with distribution. Mr Kadowaki says Honda plans to change the system: while Peugeot used distributors authorised and picked by the Guangzhou government, Honda plans a network of dealerships.

"We are going to set up our own dealerships in China. Their [Peugeot's] system of distribution was just distribution. In Honda, we are going to concentrate on how to provide after-sales service for the customer." Honda plans to have 50 dealerships by the end of 1999 and more than 100 by the end of the following year.

Much will depend on China's passenger car market taking off. Growth has been sluggish and only Volkswagen, which sells more than 200,000 cars a year and accounts for roughly half the market, has built a substantial business in China.

"In the coming two to three years, the market growth will be slow," says Mr Kadowaki. "But in the case of the Accord, our production is rather limited anyway," he adds, referring to the Chinese government's 30,000-unit ceiling on the Guangzhou plant.

However, restricted exposure to the Chinese market may be one of the strengths of the Honda venture. According to Mr Kadowaki: "Even though the economy in China is slowing down, the people who can afford to buy an Accord is continuing to increase. These people need a good car. Fortunately, the car we produce is a high-class, luxury car – we are not allowed to produce an economy car. Our licence is limited, but that may be good for us."

BNP Group – FIRST HALF 1998

Net income up 25%

Net income attributable to the group of FRF 3,797 m

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Revenues up 11.9% – gross operating income up 22.8%

•

Good risk coverage in Asia and Russia

•

A strong balance sheet

•

A good level of preparation for the euro and the year 2000

•

Development and profitability

Net income attributable to the group of FRF 3,797 m

For the first half of 1998, net profits stood at FRF 3,985 million for the whole Group and at FRF 3,797 million for the Group's share, up respectively 25.6 % and 24.7 % against the first half of 1997. This result, helped by the improved economic situation in Europe and more specifically in France as well as by rising stock prices, was obtained despite the crisis affecting several emerging countries. It results from improved performances by the Group in its different sectors of business as a consequence of in-depth modernisation.

Revenues up 11.9% – gross operating income up 22.8%

Group net banking income was up 11.9 % to over FRF 24 billion. Taking into account a 6.9 % increase in operating expenses and depreciation, gross operating income for the BNP group was over FRF 8.2 billion, up 22.8 % against the first half of 1997.

The cost/income ratio (operating expenses and depreciation as a percentage of net banking income, calculated in accordance with French generally accepted accounting principles) stood at 65.7 % (against 68.7 % for the first half of 1997).

The Group's three core businesses (Domestic Banking, International Retail Banking outside Europe, Global Banking and Markets) have contributed to this growth in gross operating income.

Domestic Banking: gross operating income of FRF 2,527 m (+ 10.7 %)

Domestic Banking revenues amounted to FRF 12,335 million, up 2.8 %.

The first half showed sustained activity in terms of deposits collected, in particular current/cheque accounts, as well as mutual funds, and through the continued upturn in loan demand from businesses as well as private individuals, from the latter for both consumer credit and property lending.

The successful launch of new products has led to a 10 % increase in commissions representing 41.6 % of revenues for the domestic branch network in France.

Efforts in productivity and cost control have continued, with the network's operating expenses and depreciation up 0.8 % in current francs, or down 0.2 % in constant francs.

Gross operating income stood at FRF 2,527 million (+ 10.7 %) for Domestic Banking, including FRF 1,911 million (+ 14.4 %) for the domestic branch network.

International Retail Banking outside Europe: gross operating income of FRF 774 m (+ 13 %)

Revenues from this core business, which includes Bank of the West, BNPI, and subsidiaries in Africa and French overseas areas, stood at FRF 2,060 million (+ 10.2 %). Gross operating income rose 13 % to FRF 774 million. In the first half of 1998, Bank of the West and First Hawaiian Inc. signed an agreement for the creation, in the western United States, of BancWest Corp., a banking group with 215 branches and 800,000 customers. BNP, with a 45 % stake, will be the principal shareholder of the new entity, a publicly listed corporation in the US.

Global Banking and Markets: gross operating income of FRF 3,752 million (+ 38.6 %)

Revenues from Global Banking and Markets stood at FRF 8,661 million (+ 28.5 %) and gross operating income at FRF 3,752 million (+ 38.6 %).

All lines of business contributed to this growth in gross operating income: financial market activities (+ 53.8 %), specialised finance (+ 47.4 %), global customers (+ 24.8 %), and asset management (+ 24.1 %).

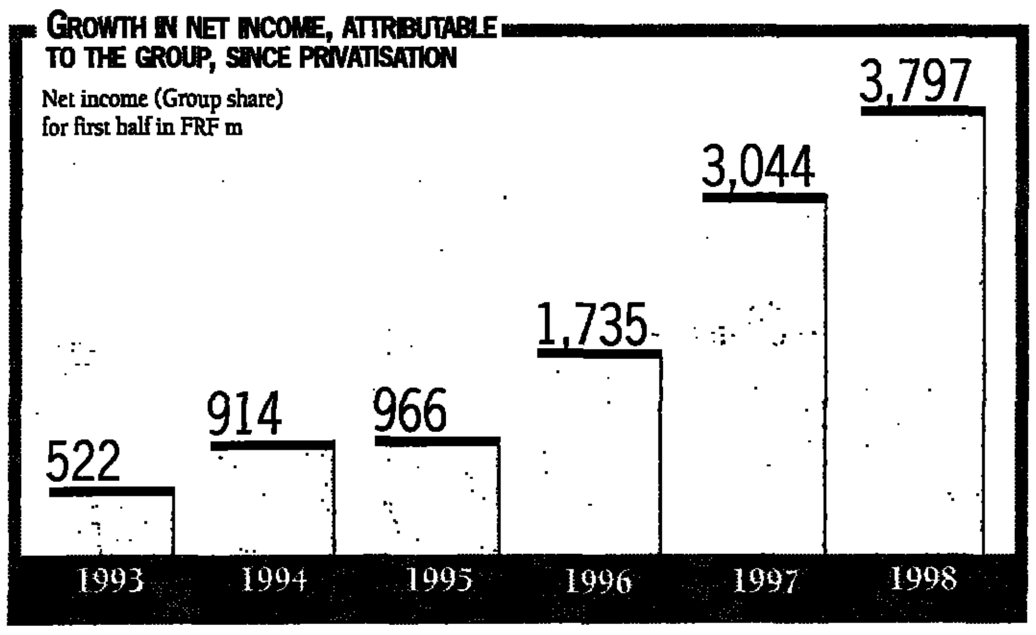
Good risk coverage in Asia and Russia

During this first half, BNP raised by FRF 1.9 billion its provisions covering risks in five Asian countries: South *Korea, Indonesia, Malaysia, Philippines and Thailand.* Outstanding provisions for this area stood at FRF 4.9 billion at end June 1998, of which only 24 % covered identified specific risks and 76 % were set up for prudential purposes in the event that the crisis in this area should worsen. Overall, BNP has reduced by 14 % – to FRF 26.9 billion – its commitments (defined *widely) over the five sensitive countries without* however sacrificing its client relationships.

The Group's total commitments to Russia at 31 July 1998 stood at FRF 4.3 billion, with FRF 2.8 billion for sovereign debt resulting from transactions initiated by the former Soviet Union, denominated in foreign currencies, and only *FRF 0.2 billion in GKOs.* Specifically, these commitments include all on- and off-balance sheet items all lines of business (credit including local commitments, money market & foreign exchange, securities, including trading) except risks covered by an institution outside the zone and transactions only involving a delivery risk. They include all customers of the zone (excluding subsidiaries of multinational groups).

GROWTH IN NET INCOME, ATTRIBUTABLE TO THE GROUP, SINCE PRIVATISATION

Net income (Group share)
for first half in FRF m



Since the start of the decade, BNP has considered that Russian risk should be provided for. Accordingly, provisions have been set up over the years within the bank's global allowance for country risk. In line with the evolution of risks, the provisions attributed to each country are regularly adjusted within this global allowance, of which the total stood at FRF 15.4 billion at 30 June 1998. The level of provision attributed to Russia thus provides adequate cover of current risks.

In addition, BNP has made a general prudential provision of FRF 500 million in its first half accounts to cover a possible worsening of the situation.

A strong balance sheet

BNP has continued to strengthen its balance sheet over the first half of 1998. Group equity has again risen. Taking into consideration a controlled 2.6 % reduction in average weighted assets, the total capital ratio (Cooke ratio) therefore stands at 10.3 % out of which 6.4 % for its Tier 1.

Taking into account the reserve for general banking risks of FRF 6.7 billion and the allowance for unforeseeable sectorial risks of FRF 1.4 billion, together with a good level of provisions for risks, BNP has a particularly strong balance sheet to face up to the challenges of the future.

A good level of preparation for the euro and the year 2000

BNP has put a lot of effort in recent years to prepare for the transition to the euro and the arrival of the Year 2000, and will be in a position to offer a wide range of *products and services in euro starting from + January* 1999. At European level, BNP can count on the extent of its network (161 offices), on the TransEuropean banking Services network (14,000 branches of 11 banks spread over 15 countries) and on its privileged partnership with Dresdner Bank which, amongst others, *allows both banks to offer now a joint cash management* product to SMCs.

Development and profitability

As early as 1997 and well in advance on its plan of action, BNP reached the levels of profitability that it had announced in 1993, at the time of its privatisation. It has therefore now defined growth objectives for each of the Group's three core businesses for the period leading to 2002. This new action plan's main ambition is naturally the creation of value, by a continuous improvement of the return on equity and of earnings per share. *The implementation of this plan must be* done through the development of the priority businesses and the continued modernisation of the Group as a whole.

When commenting on business during the first half, Chairman Michel Pébereau congratulated all the BNP teams on the results achieved, which demonstrated in particular the fundamental improvement in Domestic Banking and the high level of profitability achieved by International Retail Banking outside Europe. He noted the good overall performance in Global Banking and Markets, while emphasising that the present uncertainties of the international situation meant that forecasts in this area were bound to be uncertain. Due to this, results in the second half should not be expected to match the results of the first half.

He believed that the Group's continuing improvement of its performance, its strengthened balance sheet and its development momentum all enable the Group's future to be viewed with confidence.

Summary of Results (FRF m)	First half 1998	First half 1997	Change %
Net banking income	24,046	21,490	11.9
Operating expenses and depreciation	(15,787)	(14,765)	6.9
Gross operating income	8,259	6,725	22.8
Net provisions	(4,238)	(2,292)	84.9
Non-operating items and other	1,712	642	x 2.7
Taxes	(1,748)	(1,903)	– 8.1
Consolidated net income	*3,985*	*3,172*	*25.6*
Net income attributable to the Group	**3,797**	**3,044**	**24.7**
Cooke ratio	*10.3 %*	*9.6 %*	
Including Tier 1 ratio	*6.4 %*	*5.6 %*	
Average number of shares	215,827,430	208,092,554	

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BANQUE NATIONALE DE PARIS

COMPANIES & FINANCE: EUROPE

MERGER TAX AUTHORITIES LOWER EXCHANGE THRESHOLD TO ENSURE CHRYSLER DEAL GOES AHEAD UNOPPOSED

Daimler assured of US go-ahead

By Graham Bowley in Frankfurt

Daimler-Benz, Germany's biggest industrial group, was yesterday assured of an easier ride in gaining shareholder approval for its $40bn merger with Chrysler, the US car company.

US tax authorities lowered the minimum threshold of Daimler shares that have to be exchanged for new DaimlerChrysler stock to ensure that the proposed merger can go ahead unopposed.

The US Internal Revenue Service said 75 per cent of Daimler-Benz shares would have to be exchanged to ensure that Chrysler shareholders avoid being taxed in the merger. Daimler had expected the IRS to rule that more than 80 per cent of its shares would need to be converted.

Chrysler shareholders will avoid tax effects if Daimler's investors hold a majority in the new company. The 75 per cent exchange threshold would ensure that this would be the case, Daimler said yesterday.

Daimler and Chrysler shareholders are due to vote on the proposed merger at special meetings in Stuttgart and Auburn Hills, Michigan, on Friday. Shareholders will then be able to convert their shares in an exchange period which runs from September 24 to October 23.

Although the minimum threshold is now 75 per cent, Daimler will be hoping that at least 90 per cent of shares will be exchanged in order to avoid accounting disadvantages.

If the proportion of shares exchanged falls below 90 per cent, Daimler will be forced to make a goodwill write-off.

However, Daimler is confident it will exceed this threshold because it has strong backing from its institutional investors – including Deutsche Bank and the government of Kuwait – which own around 80 per cent of the company.

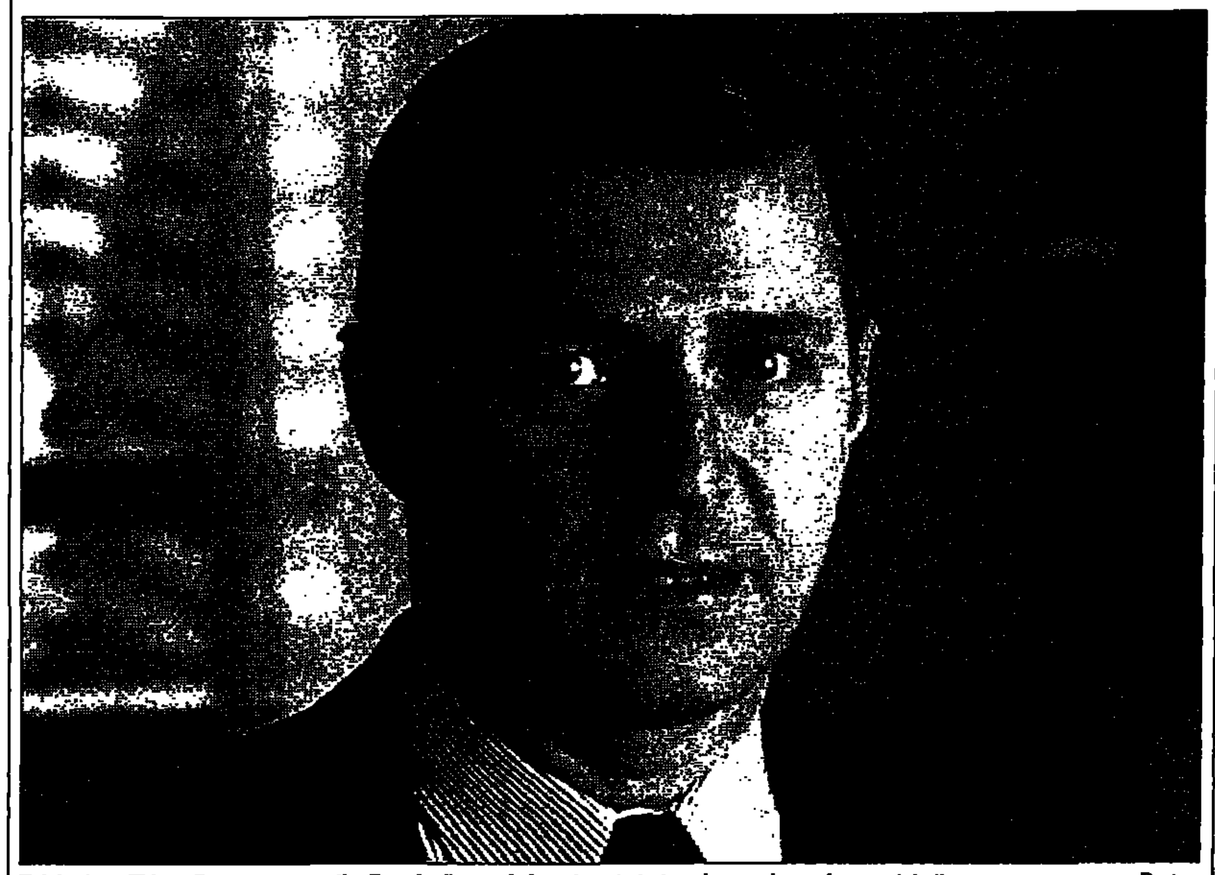
Separately, executive pay of DaimlerChrysler's top management yesterday emerged as a key issue which is likely to be hotly debated at the special meeting on Friday.

The issue of executive pay is highly sensitive in Germany, where industrialists earn much less than in the US.

According to a German magazine yesterday, Robert Eaton, Chrysler chairman, believes that senior managers' salaries at Chrysler and Daimler must be brought into line after the merger.

However, it is uncertain whether Daimler's shareholders will sanction a sharp rise in executives' salaries to US levels. Chrysler salaries are not expected to be reduced because of fears of executives defecting to rival car companies.

Daimler said yesterday it was looking at the issue of creating "competitive" executive pay scales. This could be achieved by changes to Daimler's existing stock options plan, it said. However, Daimler insisted that salaries would not be brought into line until some time after the merger had been put into place.



Total return: Thierry Desmarest says the French oil group's investment strategy is sound even in uncertain times Reuters

Oil groups strive to find the right mix

Exposure to developing markets is a concern to some investors, writes **Robert Corzine**

The issue of emerging markets is one which is causing substantial soul-searching among big international oil companies.

Although such markets represent the long-term future for many in the industry, too heavy a weighting towards the developing world is seen by some investors as a cause for concern, given current economic turmoil and uncertainty.

In recent weeks more than a few oil companies have tried to reassure investors about their emerging market involvement. Sir John Browne, chief executive designate of BP Amoco, last week noted that the combined Anglo-American group will benefit from the "quality" of earnings which will result from its bias towards the developed world.

Enterprise Oil, the UK's biggest oil independent and one of the largest international explorers, has recently made much of the fact that its production base is mainly in the industrialised world.

However, Total, the smaller of the two French integrated oil groups, remains resolute in its belief that emerging market risk – especially in the "upstream" exploration and production arm of the business – can be managed, even in periods of turmoil.

"Emerging markets may be perceived [by investors] as being a negative factor," concedes Thierry Desmarest, Total chairman. But he notes that most recent upstream investment in emerging markets has been through production-sharing contracts, which guarantees foreign investors a share of the oil or gas output.

That means they are "offshore financially", and subject to little or no risk of currency devaluation or convertibility.

In Total's case, he notes, 80 per cent of its recent investment has gone into upstream activities, with most of its international "downstream" refining and marketing activities – which would be vulnerable to devaluation – confined to Africa and the Mediterranean rim, areas "which have not been particularly hurt" in the present downturn.

Mr Desmarest was last week reassuring investors in the US that Total's investment strategy remains sound, even in uncertain times. In recent years, Total's share price has benefitted from its controversial moves into politically difficult countries, such as Iran and Burma. It clearly targetted countries from which US companies were barred by law, or which other, non-US competitors felt uncomfortable with.

He insists that an emerging markets strategy remains viable, although there are several essential elements to ensure success. One is diversification. Although Total is heavily weighted towards the developing world, it is careful to ensure a broad geographical spread of assets.

The criteria for individual projects is also demanding. "We require access to large fields with low development and production costs," he says. Total looks for projects which are viable even if oil prices slip under $10 a barrel. He believes such investments "are far more resistant" to oil price weakness than those made in smaller fields in mature areas, such as the North Sea.

Another essential element is the need to monitor individual countries carefully, and to take out political risk cover where appropriate.

Mr Desmarest says an emerging market strategy also requires flexibility on the part of the investor. "There is often a high degree of political sensitivity about the ownership of energy reserves in emerging markets. We are relatively open to different schemes" that take into account varying economic and political interests.

There are, however, emerging markets that even Total will not touch, at least in the short term. A broader political consensus needs to emerge in Russia, says Mr Desmarest: "In the short term I don't see how we could buy shares [in a Russian company] for several hundred million dollars."

Although Mr Desmarest does not rule out the possibility that Total might one day take part in wider industry restructuring, either through a full merger or by entering into more limited alliances, he believes there is considerable scope for a growth strategy based on traditional exploration and "innovative deals with producing countries".

He also questions the need for greater size in order to improve a company's competitiveness.

"I don't believe BP needed to grow in order to take part in bigger projects." He also questions whether Royal Dutch/Shell needed an "external solution" to its problematic refining and marketing business in Europe. Shell had "the size to be competitive" even before last week's European downstream merger with Texaco. "And globally speaking, the situation in Europe is not that bad."

The success of Total's strategy in recent years gives Mr Desmarest a sense of confidence that many competitors must envy. Many oil companies have described this year's price slump as the worst in recent times. For Mr Desmarest, who has upstream projects in the pipeline that are resilient to crude prices under $10 a barrel and who foresees 8 per cent annual volume growth over the next five years, it is merely at the low end of a long-term range of expectations.

Swiss resources group surges

By William Hall in Zurich

Südelektra Holding, the world's biggest ferrochrome producer, has more than trebled first-half net earnings, to $46.3m, helped by acquisitions, cost-cutting and a weaker South African currency, which lowered the operating costs at its most profitable business.

Südelektra, a Swiss-based natural resources group, acquired South Africa's Consolidated Metallurgical Industries, the third largest integrated ferrochrome producer, at the start of the year.

The acquisition came less than four years after Südelektra bought Chromecorp, another South African producer, and the group now operates 14 ferrochrome furnaces and seven chrome mines, with annual production of more than 1m tonnes.

Daniel Sauter, Südelektra chief executive, said efficiency gains at Chromecorp and CMI, moderately higher sales prices and a substantially weaker South African currency, had boosted ferrochrome operating earnings more than fivefold, to $45.8m.

With increased production from new furnaces at Wonderkop and CMI's contribution, ferrochrome production had more than doubled, to 488,000 tonnes, in the latest six months.

Südelektra has also strengthened its position in vanadium, which also supplies the world steel industry. Improved efficiency and higher prices led to operating margins well above expectations. Vanadium contributed $27.6m to group operating earnings of $79.9m.

The strength of the ferrochrome and vanadium businesses contrasted with much lower profits from the oil, aluminium and coal divisions. Mr Sauter said yesterday that Südelektra's aimed to be one of the lowest-cost producers in each sector in which it operates.

Südelektra has been criticised in the past for its close ties to Glencore, one of the world's biggest commodity traders, and its biggest shareholder. Mr Sauter recently stepped down as Glencore chief financial officer to concentrate on running Südelektra.

The company is also moving out of Glencore's headquarters to new premises in Zug and introducing a stock option plan to align management's interests more closely with those of shareholders.

Watershed for Israeli high-tech funds

By Avi Machlis in Jerusalem

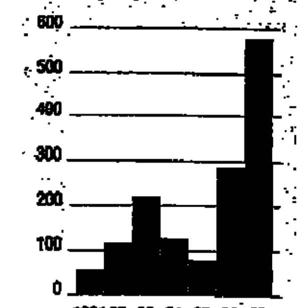
Israel's high-tech venture capital funds, which have raised nearly $1.5bn since 1991, have accumulated more money than they can spend wisely, a prominent Israeli venture capitalist said yesterday.

His comments came as Israeli high-tech venture capital funds and their overseas investors met in Tel Aviv for the third annual conference of the Israel Venture Association, an industry organisation.

"We are certainly at a watershed," said the head of a big venture capital fund. "There is enough money already raised but it's going to take quite a while to invest. It's unlikely that more funds will pour into the country until large institutional investors see good performance on the money they've already invested."

Last year, 58 Israeli high-tech venture capital funds raised $578m, 10 times more than the amount raised in 1991. About $429m was invested in 150 companies. In comparison, venture capital funds in the UK – which has a population 10 times larger than Israel – invested £690m ($1.2bn) in 295 technology companies last year, according to the British Venture Capital Association.

Israel
Technology venture capital funds ($m)



Source: Israel Venture Association

The growth of Israel's venture capital industry is considered a sign of Israel's technological prowess, and the potential hidden in more than 2,000 start-up companies. However, in spite of the heavy flow of funds, a recent flurry of cross-border acquisitions and dozens of offerings on Wall Street, some critics argue that the venture capital industry is far from mature.

Critics say Israeli venture capital funds are staffed mostly by former bankers and industrialists. They desperately need technology experts.

"This makes them quite conservative in choosing investments and they have no way of judging early-stage companies," said Jacob Davidson, chairman of Delta Three, a small internet telephony company which was rejected by a dozen venture capital funds. The company raised private equity and went on to become a leader in the nascent internet telephony field.

In addition, critics accuse Israeli venture capital funds of encouraging start-ups to go public too early, and not trying to build companies or get involved in management – a well-known weakness of the sector. "They can't open doors and they have no contacts like their US counterparts," said Joel Bainerman of Israel Technology Partners, a private consulting firm.

Ed Mlavsky, president of the Gemini Capital Fund, which is backed by the Massachussets Institute of Technology and the pension fund of PGGM, the Dutch telephone company, disagrees.

He says Israeli funds face the same challenges of UK and US funds, which devote 2.5 per cent of committed capital a year to management and administration.

"How many top professionals, plus secretaries and rent, can you pay with $250,000," he said, referring to a $10m investment. "If you're running a large fund, you simply don't have the bandwidth to come in that early and provide management. Funds like ours often find ourselves over-committed to helping small companies."

هكذا من الاجل

of US go-ahead

Swiss resources group surges

he right mix

-tech funds

COMPANIES & FINANCE: EUROPE

FINANCIAL SERVICES CONCERN GROWS AFTER RATINGS AGENCY QUESTIONS HEALTH OF PUBLIC SECTOR GROUPS

Russian crisis hits German banks

By Graham Bowley in Frankfurt

Concerns about the exposure of the German government to Russia's financial crisis intensified yesterday after a leading ratings agency raised serious worries about the financial health of two German public sector banks.

Fitch IBCA downgraded one of its key ratings of Landesbank Rheinland Pfalz and said it was "almost certain" to downgrade a rating of Westdeutsche Landesbank (WestLB) because of the banks' exposure to Russia.

The move comes after it emerged last week that Russia has missed important interest payments on debt to Germany which were due at the end of last month.

Concern has been mounting about the involvement in Russia of WestLB, Germany's biggest public sector bank and the one that has expanded most aggressively internationally. WestLB is the only one of Germany's five top banks that has not divulged details of its exposure to the sharp deterioration of Russia's financial markets. This has led to mounting worries that the German taxpayer could be faced with a large bill to cover its losses since it is ultimately backed by the German federal government.

The shares of other German commercial banks have been shaken by the Russian crisis because of their deep involvement in the country.

Along with the German banks, Fitch IBCA yesterday issued warnings about Bank Austria and Credit Suisse First Boston.

It downgraded Banca Nazionale del Lavaro, the Italian bank that is being privatised by the Italian government.

BNL was chiefly exposed to Russia's London Club debt – which is restructured debt inherited from the Soviet Union, the ratings agency said.

Russia has insisted that it would honour its London Club debt, as well as its Paris Club debt to foreign governments, despite the financial crisis. However, it emerged last week that the Russian government has missed interest payments to Paris Club creditors due at the end of last month.

This has raised fresh worries about the exposure of western governments and banks to the escalating Russian crisis. Germany received only a fraction of the DM800m ($474m) interest payments due at the end of August, although the German government said it expected to receive the rest before the end of the year.

Fitch IBCA is unlikely to cut the public sector banks' credit ratings because they are state backed. The moves yesterday affect the banks' stand-alone rating as if they were not state backed.

See Lex

Investor seeks more foreign directors

By Tim Burt in Stockholm

Investor, the main investment vehicle of Sweden's Wallenberg business empire, is planning further boardroom changes at companies it controls by appointing more international directors.

The investment company, which holds stakes in companies accounting for more than 40 per cent of the Swedish stock market, is expected to announce several new appointments early next year.

The move follows a wave of new appointments last March, when overseas directors were named at companies including Scania, the heavy trucks group; Electrolux, the household appliance manufacturer; and SKF, the bearings group.

"You can expect to see more changes in our boards next spring," said Claes Dahlbäck, Investor chief executive. "There will be smaller boards and more non-Swedish directors."

Among the companies within the Wallenberg sphere, new boardroom appointments have been mooted at Ericsson, the telecommunications group, where Investor controls 22 per cent of the voting rights.

Claes Dahlbäck: 'More non-Swedish directors' Ashley Ashwood

Although Ericsson has more than 90 per cent of its sales are outside Sweden and is considering moving its headquarters to London, it has only one non-Swedish director – Peter Sutherland, chairman of Goldman Sachs International.

"The Ericsson board is not international enough and there is an ambition to get more international representatives appointed," the company said.

Possible candidates are thought to have been sounded out by senior Investor directors.

Marcus Wallenberg, deputy chief executive of Investor, said yesterday that such changes did not reflect dissatisfaction with the current make-up of boards within the Investor portfolio.

"This process is one of evolution rather than getting rid of people," he said. "Perhaps we should have been doing it sooner, but I do not subscribe to the view that board seats were given away as favours in the past."

Mr Wallenberg – who is deputy chairman of Ericsson, and a director of Stora, Saab, Astra, Gambro, Scania and Skandinaviska Enskilda Banken – also emphasised that such changes did not signal any weakening or change in the Wallenberg family's commitment to be long-term owners of large industrial stocks.

"I do not see any contradiction between acting faster – whether by appointing new directors or through strategic moves – and maintaining our long-term industrial perspective," he said.

Mr Wallenberg acknowledged that Investor had been more active in restructuring its shareholdings since making Percy Barnevik, the Swedish industrialist, the company chairman last year. But he said that the changes – including the merger of Stora with Enso of Finland, and the sale of a minority stake in British Aerospace to Saab – reflected the trend towards globalisation rather than an overhaul instigated solely by Mr Barnevik.

Mr Dahlbäck, meanwhile, disclosed Investor was midway through a shift towards private equity investments and leveraged buy-outs of smaller companies.

The company has spent SKr7bn-SKr8bn ($893m-$1.02bn) to expand its presence in that area out of SKr15bn earmarked for such investments – almost 15 per cent of the total portfolio.

"Most of that investment will be outside Sweden and there will be more cross-border deals," he said.

Financial crisis takes heavy toll on Lukoil

By Arkady Ostrovsky in Moscow

Lukoil, Russia's largest fully integrated oil company, suffered a 50 per cent drop in pre-tax profits in the first half of the year, to Rbs1.2bn ($103m), because of the mounting financial crisis, low oil prices and high taxes, the company said yesterday.

However, oil production for the period rose 4 per cent to 31.7m tonnes of crude oil, while gas production went up 19 per cent to 1.8bn cubic metres. Lukoil, which has total proven reserves of 12.8bn barrels of oil, increased its export sales 45 per cent to 12.2m tonnes.

Lukoil said it had benefited from the devaluation of the rouble, which increased its profits from exports and reduced its cost base in Russia. Andrei Kochetov, the head of the development and investor relations department, said the devaluation of the rouble allowed Lukoil to lower its break-even point by 20–25 per cent.

However, the benefits of the devaluation were offset by the paralysis of the payment system in Russia and low domestic demand.

Export sales, which account for one-third of the company's total turnover, contributed more than half of the profits, while Russian sales merely broke even. Mr Kochetov said many Russian industrial consumers simply could not pay, because their bank accounts were frozen.

Mr Kochetov said Lukoil had to cut its investment programme by 25 per cent, and freeze 4,000 oil wells – mainly in western Siberia. He said it was also spinning off its maintenance and transport services in order to cut costs by 25 per cent. But one western analyst said it remained to be seen whether this was more than just a cost-hiding exercise.

Mr Kochetov said Lukoil has also suffered from the Russian banks' default on foreign credits, which undermined investors' confidence in the Russian oil sector. "Foreign investment is extremely important for us. Without it we will not be able to implement new technology and proceed with our development projects," he said.

The company said it was hoping to increase its downstream activities and was considering an acquisition of a refinery and a chain of petrol stations. Mr Kochetov also did not rule out consolidation in the oil sector and said Lukoil was looking at three or four options.

Norway bank in NKr2.08bn issue

By Valeria Sköld in Oslo

Union Bank of Norway, the country's third largest, is to issue up to NKr2.084bn ($276m) in primary capital certificates to finance its acquisition of Gjensidige Bank.

The placement, to existing certificate holders, is the largest capital raising this year in Norway and will help fund the bank's alliance with insurer Gjensidige to create Norway's largest financial services institution after Den norske Bank. The new company will be known as Gjensidige NOR.

Under their agreement, Union Bank of Norway will pay NKr2.17bn for Gjensidige Bank, from the group's general insurance unit. It will also buy 50 per cent of one of Gjensidige's unit-linked businesses, while Gjensidige will pay NKr585m for Union Bank's insurance unit, NOR Forsikring.

The two companies will also hold stakes in merged entities covering investment and mutual activities.

The tie-up between the two groups will be the first large-scale collaboration within the Norwegian financial services industry, following a series of failed mergers between its local rivals in the last year.

NEWS DIGEST

SOFTWARE

Brokat to be priced ahead of Frankfurt debut

Shares in Brokat Infosystems, the German internet banking and electronic commerce software group, will be priced tomorrow ahead of the company's Frankfurt Stock Exchange debut. The 2m shares on offer are expected to be priced at between DM53 and DM64, valuing the Stuttgart-based group at DM424m-DM512m ($251m-$303m).

Brokat, which has grown rapidly and more than doubled its sales from DM12.1m to DM29.6m in the year to June 30, plans to use the estimated DM80m net proceeds from the placing to finance international expansion and enable it to strengthen its market position. Since it was founded in 1994, the group has become one of the leading providers of software for internet banking, internet brokerage and internet payment systems.

Its Brokat Twister software combines internet and mobile phone services and is used by more than 100 financial service companies including Deutsche Bank, Bank 24, Allianz, Fortis Bank Luxembourg, The Zurich Kantonalbank and Britain's Co-operative Bank. In Germany it has over 70 per cent of the market for internet banking software and has been expanding its operations elsewhere.

The proportion of sales coming from outside Germany has risen from 18 per cent in 1996-97 to 35 per cent last year and the group has subsidiaries in Britain, Ireland, Luxembourg, Austria, Switzerland, Singapore, Australia, South Africa and the US. The company's founders and present members of the board will retain shareholding majority after the flotation takes place.

Paribas and Dresdner Kleinwort Benson are joint co-ordinators for the issue. **Paul Taylor**

BANKING

New ADR programme for UBS

UBS, Europe's biggest banking group, is launching a new American Depositary Receipt programme which allows investors to buy UBS shares in the US over-the-counter market. Swiss Bank Corporation, taken over by UBS earlier this year, launched an ADR programme in 1993 and UBS followed a year later.

Under the previous schemes, 10 ADRs were equivalent to one SBC share, and 50 ADRs were equal to one UBS bearer share. Under the new scheme, 20 ADRs will be equal to one UBS share. The programme is sponsored by UBS and the ADRs will be deposited with the Bank of New York.

An ADR programme allows a foreign bank to enjoy many of the benefits of a US share listing without the disclosure obligations involved in preparing accounts according to US generally accepted accounting principles. However, Credit Suisse Group, UBS's smaller rival, announced last week that it plans to reconcile its accounts to US GAAP in a step-by-step process by 2001. It believes that this will give it easier access to the international capital markets, better benchmarking with competitors and improved ability to make acquisitions. It could also pave the way for an eventual listing on the NYSE. **William Hall, Zurich**

MEDIA

Downturn at Pathé

Pathé, the French media group, has reported a sharp downturn in first-half profits. Net income for the period totalled FFr102m ($18m) on turnover of FFr1.1bn, against FFr153m on turnover of FFr1.02bn the previous year. The company's interests include a 17 per cent stake in BSkyB and 65 per cent of Libération, the French daily newspaper. **David Owen, Paris**

POLAND

Rothschild appointed to Pekao

NM Rothschild, the UK investment bank, has been appointed financial adviser to Poland's Pekao bank in the forthcoming sale by the state treasury of a 55 per cent stake, valued at about $1.1bn, to a strategic investor. Pekao, which holds 19 per cent of Poland's banking assets, floated a 15 per cent stake on the Warsaw bourse last June. CSFB advised the treasury on the flotation and is the government's adviser on the current sale. **Christopher Bobinski, Warsaw**

COCKERILL SAMBRE

Thyssen withdraws bid

The Walloon Region said yesterday that Thyssen Krupp Stahl of Germany had withdrawn its bid for steelmaker Cockerill Sambre, which is 78.77 per cent held by the region. Final bids for Cockerill were due for submission by September 21.

The German group's withdrawal leaves only Usinor of France as a potential bidder. **AFX News, Brussels**

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ELECTRICAL CONNECTORS DIVERSIFIED GROUP AMENDS OFFER IN ATTEMPT TO ACQUIRE 18% OF AMP WITHOUT TRIGGERING POISON PILL

AlliedSignal steps up pursuit of AMP

By William Lewis in New York

AlliedSignal, the diversified manufacturer, yesterday turned up the heat on AMP, the US manufacturer of electrical and electronic connectors that is resisting its takeover attempt.

AMP's stock price leapt $2\frac{15}{16}$ to $41\frac{15}{16}$ in early trading on Wall Street after AlliedSignal announced it had amended its original $9.8bn takeover offer in an attempt to acquire 18 per cent of AMP without triggering a poison pill.

AlliedSignal's share price also went up, gaining $2¼ to $35\frac{13}{16}$. AlliedSignal also announced that under the terms of its original tender for 100 per cent of AMP's shares, shareholders holding 72 per cent of AMP had agreed to tender their shares to AlliedSignal.

However, with AMP refusing to redeem its poison pill – which effectively prevents AlliedSignal from buying more than 20 per cent of AMP – AlliedSignal said it would amend the terms of its tender offer to "purchase as many shares as it can without triggering AMP's poison pill".

Lawrence Bossidy, chairman and chief executive of AlliedSignal, said: "Acquiring these shares will advance our plan to acquire the remaining shares of AMP as soon as practical."

The $1.8bn, or $44.50 a share, tender offer will end on September 25. AlliedSignal said it intended to press ahead with its efforts to acquire all of AMP's shares "by all available means," including a $44.50 tender offer for all of the company's remaining shares conditional on the removal of AMP's poison pill.

AlliedSignal is also amending its consent solicitation proposal – due to be voted on on October 15 – to include a proposal that would remove all power AMP's board of directors has over the company's poison pill. If approved, this would hand authority over the pill to a new board of directors elected by AMP shareholders.

Last month AlliedSignal launched a $44.50-a-share all-cash offer for AMP, but was accused by AlliedSignal of trying to buy it "on the cheap".

Yesterday AMP sought to play down the significance of the fact that 72 per cent of its shares had been tendered to AlliedSignal in its original tender offer.

It said that a letter sent on behalf of AlliedSignal by one of its agents to AMP's institutional shareholders stated that "if you tender your shares and wish to withdraw them at a later time, the withdrawal process is very straightforward and a withdrawal can be effected within hours".

The letter also said that "tendering your shares does not commit you to voting for AlliedSignal on the consent solicitation".

Robert Ripp, the newly appointed chairman and chief executive of AMP, said the company hoped for earnings per share of $2.30 in 1999 and "at least" $3 in 2000. Analysts contacted by First Call were expecting earnings per share of $1.99 next year.

NorTel cuts 5% of world workforce

By Scott Morrison in Toronto

Northern Telecom, the Canadian telecommunications equipment maker, yesterday confirmed reports it would lay off about 3,500 employees worldwide, cuts that would affect all of the company's business divisions except data networks.

The company said the redundancies were part of its strategy to shift its focus away from traditional voice network products in order to increase its presence in the growing data networking market.

However, analysts said the timing and scope of the redundancies raised questions about the recent all-share US$7bn acquisition of Bay Networks, the US networking equipment manufacturer. They estimated the job losses, equal to almost 5 per cent of the company's global workforce of 85,000, could save Nortel about US$300m, not including restructuring charges.

Peter Janacek, a company spokesman, said the cost savings would be deployed into the company's data networks division. He declined to specify the size of the one-off charge the company would take to pay for them.

One analyst said the job cuts, which were expected to be announced this week, indicated the company had been forced to cut costs as a result of the Bay Networks acquisition. Another believed it has been forced to cut so many jobs in order to reduce product overlap that resulted from the purchase. However, Mr Janecek denied this.

Analysts said it was difficult to comment without further details from the company, particularly with regards to the size of the special provision. About half of Nortel's employees work in its public carrier networks division, which makes equipment for traditional voice networks operated by telephone groups.

John Roth, Nortel chief executive, estimates that by 2000 data signals could comprise about 80 per cent of all network traffic and the company has moved aggressively over the past year to strengthen its data networks operations.

The company, which traditionally manufactured equipment for voice networks, has recently acquired a number of small companies which produce products used by internet service providers. The buying spree culminated with its acquisition of Bay Networks, which is being run as a subsidiary of Nortel, which had 1997 revenue of US$15.5bn.

Lewis Campbell: Textron aims to increase sales by up to 11 per cent a year with half coming from acquisitions Jason Orton

European strategy pays off for Textron

Avoiding Asian acquisitions put the industrial group in good stead, writes **Peter Marsh**

After a $7.5bn investment spree in the past five years, Textron, a US industrial group with interests from golf carts to some of the world's fastest jet aircraft can hardly be accused of lack of action.

Now the company is planning to keep up the momentum by spending a further $4bn by 2002 on acquisitions.

Over the past 10 days, Textron has made two big steps in Europe, which is likely to remain the focus of its attention after its 16 acquisitions in the continent since 1993.

After spending £195m ($328m) buying David Brown, a UK gear and pump maker that Textron intends to use to drive worldwide sales of its fluid power business, Textron last week gained a foothold in the consolidating European aerospace industry. This came through a joint venture between the US company's Bell helicopter subsidiary and Agusta, the Italian helicopter manufacturer.

The move is seen as significant because Agusta is already in the process of combining its operations with those of Westland, the UK helicopter maker which is part of GKN.

Lewis Campbell, Textron chief executive, says Textron plans to continue its recent expansion by increasing sales by up to 11 per cent a year by early next decade, with half of this coming from acquisitions.

"We are continually looking for good companies which we think we can make better," says Mr Campbell, who stepped up to his current job in July after previously being chief operating officer.

Textron's record has given the company a strong following among investors. On sales last year of $10.5bn, the company produced net income of $558m, more than double the $252m in 1992.

Since then, even allowing for a dip in Textron's stock price in the past six months caused by general concerns related to the Asia crisis, its shares have outperformed the rest of the New York stock exchange by 20 per cent.

"Textron has integrated its acquisitions impressively and has a solid growth strategy," says Quinten Nufer, an analyst at Warburg Dillon Reed, while Phua Young, of Lehman Brothers, praises the company's efforts to achieve "balance" between its different businesses.

The company's recent efforts to grow started in 1993, when only a quarter of the company's sales were outside the US.

Textron opted for Europe, rather than Asia, as the place in which to expand. "We thought there were fewer risks [from Europe]," says Mr Campbell, indicating that recent events appear to have proved the company correct.

In the past five years Textron has increased annual revenues from Europe roughly tenfold to the $2bn likely next year, counting the impact of the David Brown and Agusta deals.

Mr Campbell is particularly proud that, of the 16 acquisitions over this period from Europe – out of a total of 26 around the world – in all but one case the top executives have stayed with Textron.

"We ask managers [of acquired companies] to make room for Textron, and we make room for them," says Mr Campbell.

The 26 purchases – on which Textron has spent $2.5bn, with the company having invested a further $5bn since 1993 on plant, buildings and research and development – have mainly served to boost Textron's industrial products and automotive divisions.

These encompass two of Textron's three main units, the other one being its aircraft business which makes Cessna business jets as well as helicopters.

Through the purchase in 1997 of Kautex of Germany, Textron has become the world's biggest maker of moulded plastic fuel tanks, a fast growing segment of the vehicle business.

In the past five years, helped by several acquisitions in Europe, Textron has become the world's biggest maker of industrial fasteners, for products from cars to computers. Over this period it has pushed up sales of these items fivefold, today claiming about 6 per cent of the $30bn-a-year world fasteners market.

Besides making pumps and golf carts (marketed under the E-Z-GO name), Textron also last year increased its interests in the grass-cutting industry through buying Ransomes, a venerable UK company.

Out of Textron's $9.7bn revenues expected this year – which includes the recent $3.9bn sale of its Avco consumer finance business, which Textron decided did not fit in with the rest of its industrially-oriented activities – roughly two-fifths will be outside the US. Latin America accounts for about 6 per cent of revenues, and Asia about 3 per cent.

As to how Textron manages its disparate manufacturing activities, Mr Campbell says the company has been helped by a $1bn computer network which links executives in the company's different locations around the world.

Every three months the top 300 managers in Textron's industrial group communicate via the network to exchange ideas about how, for instance, just-in-time manufacturing techniques tried out in a fasteners plant could be applied in a factory making car instrument panels or seating systems.

"We have invested heavily in technology, and estimate that of the two percentage points increase in our profit margins since 1993, roughly a third has come from advances in information technology and our ability to manage this properly," says Mr Campbell.

NEWS DIGEST

ELECTRONICS

Rockwell to take $265m charge in fourth quarter

Rockwell International will take an estimated $265m after-tax charge in the fourth quarter as the electronics and automation group shrinks its semiconductor operations, prior to a planned spin-off. The charges were largely related to sluggish demand for personal computer modems, the company said. Although sales had improved over the prior quarter, they were still "disappointing", said Dwight Decker, president. Corrective actions were needed to bring costs into line with demand, he added.

Rockwell said it would close a chip manufacturing plant in Colorado and reduce the workforce of its semiconductor operations by about 10 per cent. In addition, the unit was expected to record an after-tax operating loss of about $55m. **Louise Kehoe, San Francisco**

PHARMACEUTICALS

Elan buys NanoSystems

Elan Corporation, the Ireland-based pharmaceutical company 80 per cent owned by US institutions, yesterday added to its drug delivery products buying NanoSystems, a Kodak subsidiary which manufactures a technology which enhances the absorption of insoluble drugs. Elan is paying $150m including $14m worth of Elan warrants to buy the Pennsylvania-based company, which will bring with it a blue-chip client list including Merck, Warner Lambert, American Home Products and Janssen Pharmaceutica.

Elan has made five acquisitions in the US in the past 10 months for an aggregate $1.53bn, the largest being the purchase in August of biopharmaceutical company Neurex for $725m. NanoSystems has developed a range of drug delivery systems which improve the therapeutic value of existing compounds by making dosages more convenient, reducing the side effects and increasing cost effectiveness. It employs around 60 people who will be retained. The company was originally formed on the back of Kodak's polymer photographic research.

Donal Geaney, Elan chairman and chief executive, said the purchase offered "a platform technology applicable across all common routes of administration of pharmaceuticals". He said the acquisition would be earnings neutral both this year and in 1999, and earnings enhancing after that. **John Murray Brown, Dublin**

United opens training school

By Peter Marsh

United Technologies, the US industrial company with interests from lifts to jet engines, plans to cut its costs by several hundred million dollars a year by sending its suppliers to school.

The company has set up a new training institute, called Ito University, which will teach up to 4,000 people a year – from suppliers and United's own staff – new production and management techniques aimed at cutting costs and boosting quality.

United aims to cut its annual $14bn bill for buying goods and services by $900m by 2001. Some of the cost reduction would come from the training initiative, with the rest through measures such as using new computer techniques to save money on purchasing, for instance through "electronic auctions" involving suppliers.

Ito university, named after Yuzuru Ito, a Japanese manufacturing expert who advises United, will organise residential courses at centres in the US, Europe and Asia. The "teachers" in many of the training sessions will be hourly-paid factory workers from United, who, in a break with normal practice, will tutor higher-rank executives about shop-floor practices.

George David, United chairman and chief executive, said this was needed because many new ideas in production management in the past 10 years "have only reached the big companies and not been taken up by smaller suppliers".

Tes Aklilu, United vice president for quality, said the scheme was required to "create a different culture" among suppliers and also increase use of techniques such as Japanese-style *kaizen* quality programmes in United's own plants.

With sales last year of $24.7bn, United owns Otis, the world's biggest lift maker, the Sikorsky helicopter company, engine supplier Pratt & Whitney, and Carrier, the world's biggest air-conditioner manufacturer.

Its training initiative reflects intense effort by manufacturing companies to boost productivity and cut costs through stepping up internal efforts to educate staff in new business ideas.

While other US companies, such as Xerox and Motorola, have set up similar programmes, General Electric, the US electrical goods company, is seen as leading the way. It has its own training campus near New York which puts 12,000 workers and managers a year through new "learning" programmes. GE's total training bill runs to $1bn a year.

In Europe, Putzmeister and Messer Griesheim, German makers of concrete pumps and industrial gases respectively, are among the companies to have set up their own internal "training academies" to increase training efforts.

British-Borneo to buy Hardy

By Michael Peel

British-Borneo Petroleum Syndicate, the oil and gas exploration and production company, has agreed an all-share £293m ($483m) bid for Hardy Oil & Gas that could mark the start of a new phase of consolidation in the sector.

The deal, billed as a merger, would give British-Borneo investors 62.8 per cent of the new company, to be known as British-Borneo Oil & Gas. Alan Gaynor, British-Borneo chief executive, and Sir Bob Reid, chairman, would become its chief executive and chairman.

Analysts have been expecting an rise in merger and takeover activity in the oil and gas exploration sector, which has been undermined by the low oil price and has underperformed the FTSE All-Share index by about 45 per cent this year.

Some companies are trading at a discount to the most pessimistic analysts' assessments of net asset value per share.

Mr Gaynor said the deal had been struck because the two companies had "complementary strategy, complementary assets and complementary cashflow. The bottom line on this is that we believe one and one equals at least three if not more." "It is not mainly driven by cost cutting."

He said British-Borneo had become "90 per cent an oil company" and was eager to acquire more extensive gas interests to lessen the impact of any future weakness in the price of either oil or gas.

Gas would account for about 42 per cent of the new company's proven and probable reserves of 240 million barrels of oil equivalent.

Mr Gaynor said Hardy had valuable assets in Australia, Pakistan and the North Sea but needed short-term cash-flow to allow it to develop them. British-Borneo could provide that with income from its Gulf of Mexico operation.

One analyst said Hardy had collected some quality assets but lacked the management experience to exploit them to their potential. "It has been run by people with an accountancy bent rather than people with the oil industry in their bloodstream," he said.

The bid values each Hardy share at a premium of 25 per cent to its price of 165½p at last Friday's close. Investors in Hardy would receive six British-Borneo shares for every seven Hardy shares they held.

Richard Hulf, an analyst at Henderson Crosthwaite, said the price British-Borneo was paying represented a premium of between 15 and 18 per cent to Hardy's net asset value per share.

John Walmsley, Hardy chief executive, will leave on conclusion of the deal. Mr Walmsley, who earned a basic salary of £283,000 last year, is on a contract that requires 24 months notice for termination.

Both companies announced their results for the six months to June 30 yesterday. British-Borneo announced profits after tax down 57 per cent at £3.8m.

Hardy made a net loss after tax of £1.3m against a profit of £2.9m last time.

Uncertain oil companies go in search of new values

The exploration and production industry has been beset by a crisis of confidence, writes **Robert Corzine**

A recent visit to Premier Oil by a fund manager from a well-known institution illustrates one of the underlying problems facing exploration and production companies – shareholder fatigue.

After the briefing, Charles Jamieson, Premier's chief executive, asked the investor for his impressions. He said: "I have no doubt you are a good company but I'm not so sure you are a good investment."

The announcement yesterday of the takeover by British Borneo of Hardy Oil & Gas – which the two billed as a merger – emphasised the "excellent fit of geographic focus, assets and product streams, cash flows, technology and management". But many in the industry believe it is changing investor attitudes that underlie such deals.

One City of London merchant banker says many E&P companies are in the middle of structural transition, one effect of which is to make them harder to value by conventional measures.

No longer are E&P shares seen as merely oil price plays or pure punts on wildcat success. Increasingly the value in the sector will be derived through more complex businesses, many of which are in murky emerging markets. These often depend less on exploration success than on political and commercial relations that defy conventional valuation.

The recent shift in emphasis in the sector has been marked. Premier Oil, for example, will soon have about 80 per cent of its reserve base in gas.

Monument Oil and Gas is a case in point of investor uncertainty, or ignorance, about the source of its future cash flows. The company has secured a strategic position in Turkmenistan, based in large part on relationships with government and local industry officials. Yet executives say its shares reflect little or none of the value of the Turkmen assets.

Lasmo, the second biggest UK oil independent, is seeking to build a low-cost oil business in the Middle East. But executives say the relationships on which such a business will be built are mainly private, in keeping with Middle East traditions. It will be difficult if not impossible for outsiders to quantify the value of such relationships until oil or gas eventually flows as a result of deals in the area.

But there is another side to the coin that is far less flattering to the plight of the companies. After all, in the year to date E&P shares have underperformed the market by 49.4 per cent, due mainly to the collapse in crude prices this year.

Optimists say any cyclical upturn in crude prices would be the signal for the sector to rebound. After all, they note, it was the best performer in 1996 when oil prices were buoyant. But others fear investor frustration may reflect more fundamental unease.

Certainly the very low valuations in the sector suggest something more at play than mere oil price concerns. Analysts say some recent E&P valuations are discounting crude oil prices as low as $10 a barrel, compared with the present price of about $13 and a 10-year average range of $15-$20. Some companies say their share prices have slipped below asset values.

Until yesterday one question being asked in the sector was whether low valuations would first trigger an agreed merger or takeover bid, or whether such developments would have to await the arrival of new investors to the sector in the form of hedge funds or buy-out specialists?

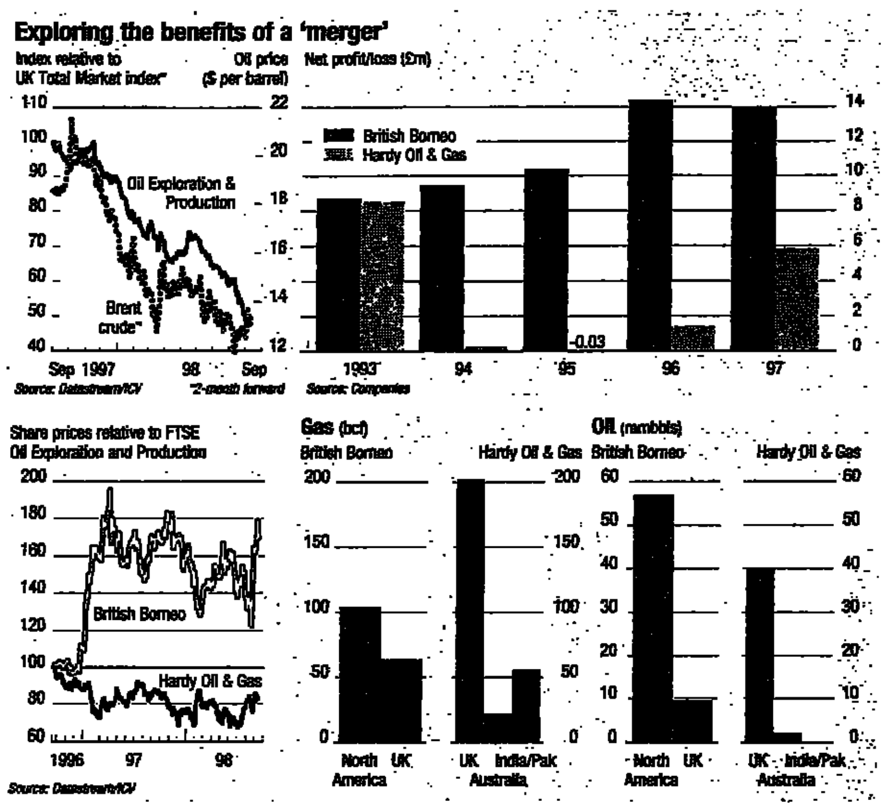
Pierre Jungels, chief executive at Enterprise Oil, the UK's largest oil independent, recently speculated that "KKR types may come into the sector for break-up situations. They may see value where others don't".

One sector analyst said he would not be surprised if some US hedge funds "might be prepared to buy big slices of some companies". Their aim would not necessarily be to break up companies, although the practical effect of any substantial hedge fund buying "would be to put the target companies in play".

There has been considerable speculation that a merger might be the best tonic to restore the confidence of jaded shareholders, especially after Enterprise and Lasmo – the two biggest UK independents – dropped out of the FTSE 100 index.

British Borneo Oil & Gas will not rival Enterprise or Lasmo in size. But some think there is still scope to create a third member of the top tier. Mr Jamieson at Premier says there are sound commercial reasons for a new E&P independent in the UK with a different strategy to that of Lasmo and Enterprise, which are increasingly forced to compete head-to-head with much larger integrated companies. His formula would be "a bigger company that aimed at being number one or two in six or seven countries" where the big oil companies are relatively weak.

Some analysts also see sense in a deal that would create "a company the size of Enterprise or Lasmo out of the remnants of the sector".



Vaux to exit brewing

By John Willman, Consumer Industries Editor

Shares in Vaux jumped 11½p to 279p yesterday after the brewer and hotels operator announced it was selling its two breweries and up to 350 of its 660 tenanted pubs.

The sale follows a strategic review led by Martin Grant, the former managing director of Allied Domecq's leisure division who became chief executive in June. He has concluded Vaux should get out of brewing and wholesaling and focus on its leisure operations, which include the Swallow Hotels chain and 160 managed pubs.

Vaux expects the disposal to be earnings-enhancing in the first full financial year after the sale. Analysts said the proceeds could be about £50m ($82m).

The brewing division management team is putting together a bid led by Frank Nicholson, brother of Sir Paul Nicholson, Vaux chairman. Outside buyers are being sought by BT Alex Brown and Noble Grossart, the group's advisers.

"Because of the involvement of the management team in a bid, we have asked the advisers to handle the whole process," said Mr Grant.

The proceeds will be used to develop the hotels and expand the group's two pub brands, Barcentro cafe bars and Bramwell's community pubs. Mr Grant – whose career has been spent working for branded food pub chains such as Whitbread's Beefeater Inns and Allied Domecq's Big Steak Pubs – said he planned to introduce more food into the bars and pubs.

Camra, the Campaign for Real Ale, said it was dismayed by the decision and hoped that a buyer could be found for the two breweries which are in Sunderland and Sheffield.

Vaux has been brewing in Sunderland since 1837, with 600 employees making beers such as Samson bitter, Double Maxim brown ale and Scorpion lager. It also owns the Ward's brewery in Sheffield which employs 170 and has been making Ward's best bitter since 1840.

Analysts said they expected bidders for the pubs to include chains such as Century Inns and Enterprise Inns.

Neither group would be interested in acquiring the breweries except to sell the sites for redevelopment.

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Vaux to exit brewing

new values

TOPRAKBANK A.Ş.

COMPANIES AND FINANCE: UK

Hays chief in upbeat mood

By Susanna Voyle

Ronnie Frost, chairman of business services group Hays, yesterday stood out against the tide of pessimism, insisting that he saw no signs that recession was on its way.

Announcing a 30 per cent jump in annual pre-tax profits, Mr Frost said: "Everyone keeps talking, saying there is a recession coming, but we don't see it at all. We have to be careful we don't talk ourselves into one."

The Hays results were ahead of expectations and the shares rose more than 8 per cent to 885p.

Mr Frost said any slowdown in the retail and service sectors from which Hays derives most of its contracts would only benefit the business.

Of the group's three core activities – distribution, commercial and personnel – the first two generally grew in a recession.

"We don't like pinching customers from other people because all you do is squeeze the margins," he said. "We go for new first-time contracts – and what makes them step over the line into out-sourcing is a nice recession."

Ronnie Frost (left) with John Cole, managing director Fergus Wilkie

The results for the year to June 30 showed growth across all three core activities – with the biggest jump in personnel, which saw operating profit grow by 41 per cent.

The business – which provides temporary staff for the accountancy, banking, legal, insurance, building management and information technology sectors – is traditionally seen as the most sensitive to a UK economic downturn.

Mr Frost admitted that while personnel was likely to "dip" in any recession, demand for temporary accountants – who make up more than 50 per cent of the business – was likely to pick up.

The combination of three separate IT personnel companies into one leaves that business ready to grow. Mr Frost said he would like to buy a company to bolster the group, but was instead concentrating on organic growth because the price of IT businesses was so high at the moment.

In distribution operating profits were 23 per cent ahead, after a negative currency impact of more than £3m ($5m). In the commercial division operating profit increased by 24 per cent.

Over the period the group invested £216m in acquisitions and capital expenditure. Mr Frost said he was keen to continue to focus on growth in continental Europe, with commercial and personnel companies the most likely targets.

Turnover for the year to June 30 rose from £1.13bn to £1.55bn, including a contribution of £191.3m from acquisitions. Operating profit was £204.1m against £155.8m.

There were exceptional operating costs of £6.5m and an exceptional profit of £2.6m on the disposal of a business.

RESULTS

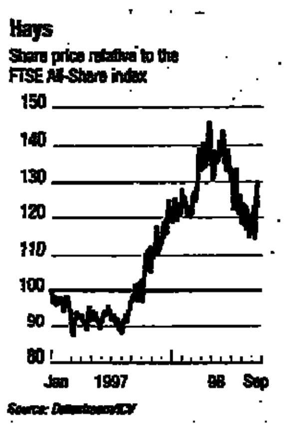
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Leisure	Yr to June 30	48.9	(38.3)	4.39	(2.31♠)	3.61	(1.71)	0.7	April 6	0.67	1.05	1
ASW	6 mths to June 30	232.4	(228.6)	3.8L	(8.8L♠)	4.6L	(10.L)	nil	-	nil	-	nil
Britannia	6 mths to June 30	27.8	(17.2)	1.54	(0.327)	5.1	(1)	0.6	Nov 2	0.4	-	1.4
British Polythene	6 mths to June 30	248.4	(223.1)	11.3♠	(11.1)	19.03	(18.73)	7	Nov 27	6.5	-	20.1
City Technology	Yr to June 30	23.6	(18.9)	0.093♠	(7.66)	0.06	(10.68)	5.27	Nov 6	3.82	5.27	5.27
Coutts Holdings Φ	6 mths to June 27	13.7	(12.2)	0.66	(0.939)	3.9†	(6.2)	1	Oct 16	0.9	-	3.6
Dowding & Mills	Yr to June 30	121.6	(119.9)	8.3♠	(14.4)	1.93†	(5.89)	2.17	Oct 29	2.06	3.3	3.19
English China Clays	6 mths to June 30	417.2	(413.4)	43.5	(41.6)	10.14	(9.48)	5.5	Dec 11	5.5	-	13
European Leisure	Yr to June 30	75.4	(69.1)	0.586♠	(7.02)	0.21	(23)	3.25	Nov 25	3	4.5	4
Fairey	6 mths to July 4	135.3	(153.7)	51.2♥	(24)	31.5	(16.5)	3.2	Nov 13	3.05	-	10
Goodhead	Yr to May 31	42.3	(32.2)	1.78♥	(1.53♥)	2.9	(2.4)	0.8	Nov 30	0.3	0.8	0.4
Haden MacLellan	6 mths to June 30	285.7	(226.2)	0.2♠	(6.7)	2L	(3.8)	1.4	Oct 31	1.3	-	3.1
Haggas(John)	Yr to June 30	43.2	(43.8)	1.3♥	(2.22♠)	4	(7)	2	♦	3	3.5	4.5
Hays	Yr to June 30	1,549	(1,130)	197.3♠	(147.8♠)	33.3	(24.9)	7.25	Nov 30	6.3	10.7	9.3
Loughbridge Intl Φ	6 mths to June 30	2.78	(1.77)	0.314	(0.226)	6.06	(5.13)	2.2	Oct 26	2	-	5
Manganese Bronze	Yr to July 31	114.97	(101.68)	5.03♠	(6.31)	19.32	(36.39)	6.5	Dec 1	6	10.5	9.5
Morgan Crucible	6 mths to July 4	457.7	(451)	57.5♥	(56.1♥)	16.7	(16.2)	7.4	Jan 6	7	-	15.5
NMT Φ	Yr to June 30	-	(-)	1.45L	(1.05L♠)	3.7L	(4.2L)	-	-	-	-	-
Polypipe	Yr to June 30	273	(231.7)	34.6	(32.8)	14.19†	(13.48)	2.9	Nov 9	2.41	3.93	3.33
Regent Inns	Yr to July 4	50.8	(44)	13.3	(12.6)	13†	(12.8)	2.4	Nov 16	2.3	3.7	3.3
Reunion Mining	6 mths to June 30	1.58	(2.1)	4.46L♠	(0.91L)	11.4L	(2.3L)	-	-	-	-	-
Sharpe & Fisher	6 mths to June 30	42.3	(38.6)	2.39	(2.01)	7.8	(7.1)	2.4	Nov 6	2.1	-	6.3
Sinclair Montrose	6 mths to June 30☆	32.5	(7.02)	0.709	(0.172L)	2.55†	(0.93L)	-	-	-	-	0.2
Swan Hill	6 mths to June 30	41.2	(43.7)	2.74	(9.29♥)	3.5	(13.1)	1.2	Dec 4	1.1	-	2.75
T&S Stores	6 mths to July 4	323.3	(253.8)	10.8♠	(10.3)	10.13	(9.51)	3.6	Nov 27	3.25	-	8.5
Thomson Travel	6 mths to June 30	947.6	(-)	58.9L♠	(-)	7.25L	(-)	0.75	Oct 9	-	-	-
Travis Perkins	6 mths to June 30	304.5	(269.3)	26.1♠	(22.6)	17.4	(14.6)	3.8	Nov 2	3.3	-	11
Ulster Television	6 mths to June 30	18.1	(17)	4.52	(3.64)	5.94	(4.68)	2.8	Oct 1	2.5	-	5.7
Wolstenholme	15 mths to June 26☆	130.1	(104.1)	12.4	(7.1)	13.6	(7.6)	0.75	Nov 27	-	6	-
Whittard of Chelsea	Yr to May 31	32.5	(27)	2.81♠	(2.51)	11†	(9.9)	2.55	Nov 16	2.1	3.7	3.1

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Second Alliance	Yr to July 31	2,990	(2,598)	11.3	(10.3)	58.81	(53.43)	36	Oct 26	36	54	51.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives restated. ☆Comparatives pro forma and for 12 mths. ♦To be paid during November.

COMMENT

Hays



Ronnie Frost started his career trading chickens. The business this spawned is one class act. Its strengths were on show again yesterday. There was buoyant organic growth across the group and no horrors creeping out of the acquisitions, an Achilles heel for many of Hays' rivals. Returns on capital employed now nudge 20 per cent, and total shareholder returns have grown on average 35 per cent a year for the past five years.

But yesterday's 8 per cent jump in the share price had more to do with Mr Frost's pronouncements on the economy. With roughly a third of group profits in personnel, the market is rightly concerned that an economic slowdown could send these earnings into a tailspin, as they did in the last recession. Mr Frost says the warning signs are not flashing yet, but that should not surprise as recruitment typically lags behind the economy. But when the slowdown does bite, earnings growth in personnel is likely to shrink into single digits. Other parts of Hays, though, do quite well in a recession, as companies step up their outsourcing efforts. That should keep earnings growth in double digits over the next couple of years. After a recent loss of nerve, the shares have rightly regained their 30 per cent premium to the market.

Competition policy

The latest idea bouncing around Whitehall is that the ministers should give up their remaining powers to vet mergers. Leaving such decisions entirely to the independent Competition Commission, which is due to take over from the Monopolies and Mergers Commission, would have advantages. Politicians could not be accused of favouring an outcome in order to curry favour with voters or powerful interest groups – a problem with the current British Sky Broadcasting bid for Manchester United. The process should also become more predictable.

In some ways, such an innovation would be similar to delegating monetary policy to the Bank of England. But it would be necessary to set the ground rules within which the Competition Commission would operate. That would not be a trivial matter. Setting general rules on market dominance would be harder than picking an inflation target. Nevertheless, such considerations should not stand in the way of what looks like an excellent idea.

P&O planning building disposal

By Jonathan Guthrie

P&O, the transport and property group, is understood to be negotiating to sell its building subsidiary, Bovis Construction, which is valued at up to £350m ($577m).

The disposal would complete a withdrawal from building by P&O which began last year with the flotation for £226m of Bovis Homes, the housebuilder, leaving the group focused on cruise holidays, distribution and property investment.

Sir Frank Lampl, chairman of Bovis Construction, which specialises in supervising big building projects, has been talking to potential buyers, including Hochtief, the German construction business. WS Atkins has been mooted as a bidder, but the consulting engineer denied this yesterday.

P&O is thought to favour an outright sale. However an option described as a "backstop" by an executive close to negotiations is for John Laing, the housebuilder and contractor, to join Bovis Construction in a partnership. Laing and Bovis Construction would inject their operations into a 50/50 joint venture, which would take over Laing's stock market quote. The venture would have an option to buy out P&O stake after a fixed period.

Executives at Bovis Construction are hoping for a combination with a business such as Hochtief with a strong position in process engineering, which includes building and servicing oil refineries and chemicals plants.

This would complement Bovis Construction's main activity of construction management – co-ordinating the many contractors involved in big building projects on behalf of a client. It recently completed the £300m Trafford retail centre in Manchester, and is involved in the refurbishment of Grand Central Station in New York.

The company increased operating profit about 40 per cent to £9.6m in the first half of this year. It made profits of £16.3m before interest of £6.3m in 1997.

P&O declined to comment on the negotiations yesterday, beyond re-iterating the comments of Lord Sterling, the chairman, that P&O would sell if the price offered was high enough, but that it would be "surprising" if Bovis Construction left the group within a year.

It is expected that Bovis Construction's fate will be decided over the next two months.

GEC to make $275m medical electronics buy

By Peter Marsh

GEC, the defence and electrical goods company, underlined its commitment to medical electronics yesterday with confirmation of a deal to buy the computed tomography subsidiary of Elscint of Israel for $275m.

The purchase will propel the Picker International medical equipment arm of GEC from the fourth biggest worldwide supplier of computed tomography systems to the second biggest, after General Electric of the US.

World sales of computed tomography equipment, which uses a mixture of electronic processing and imaging technology to provide 3-D images of parts of the body such as the brain or blood vessels, are put at some $1.7bn a year. Other big suppliers of this equipment include Siemens of Germany and Japan's Toshiba.

GEC said the purchase of the Elscint division would push its world market share for tomography systems from 12 to 18 per cent. Purchases of this equipment – whose applications are becoming more widespread in a number of medical fields – are growing at an estimated 6 per cent a year.

Cary Nolan, president and chief executive of Picker, said the acquisition will increase Picker's tomography presence in several important markets, such as in Asia and parts of Europe.

Last year US-based Picker's revenues came to £755m out of GEC's total £11.1bn sales. Besides tomography systems, it also makes other medical diagnosis equipment, such as X-ray machines and nuclear imaging devices.

The acquisition underlines GEC's interest in increasing its presence in medical technology, following the review of the company's strategy undertaken in the past year by Lord Simpson, managing director. Yesterday's deal follows the agreement over the weekend by Elscint to sell its magnetic resonance imaging equipment division to General Electric of the US for $100m.

ON THE BUTTON REMOTE CONTROL SOFTWARE

New weapons for the road warrior

Products allowing dial-in access can save the travelling business person embarrassment, says **Geof Wheelwright**

You are a high-tech "road warrior". You leave the office equipped with the latest Pentium II notebook computer with DVD-Rom drive, 64Mb of RAM memory, an 8.4 gigabyte hard disc – and you are not afraid to use it.

You arrive at your meeting with minutes to spare. It is at your company's biggest client and it is annual contract renewal time. A hush falls over the boardroom as you plug your notebook into your client's LCD projection system to begin an electronic presentation listing the reasons why your company should be retained for yet another year.

Suddenly a cold sweat begins at the back of your neck and creeps swiftly over your forehead as blood rushes to your cheeks. You have realised that the finished version of the presentation you are about to give resides on the desktop computer back in your office – not on the machine sitting in front of you. The road warrior is now road kill...

For most of us, this would be the beginning of a very difficult hour – not to mention a possible catalyst to a complete career change. But if you had "remote control" software installed on both the desktop computer in your office and the notebook computer in your client's boardroom, life might not be so bleak. You could discreetly run the entire presentation remotely by accessing your desktop computer from your notebook computer.

This scenario may seem a little far-fetched, but something like it is increasingly faced by people who use both a notebook computer and a desktop system.

The latest "remote control" software, with names such as pcAnywhere32, Remotely Possible, Carbon Copy and Timbuktu allow you to dial into and remotely control one computer from another. It not only allows you to display the contents of the "host" computer on the screen of the machine that is remotely controlling it, but also to copy data back and forth between the two machines and even to run software remotely.

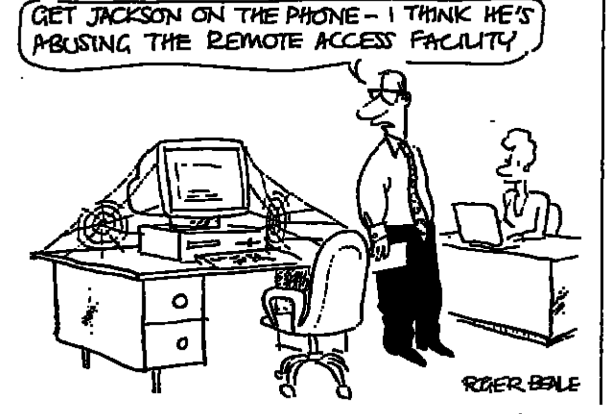
Using Symantec's pcAnywhere32, for example, you could use any standard notebook computer to dial into the desktop computer in your office (provided that pcAnywhere32 was also configured on the desktop) and run any application installed on the desktop computer – from a presentation graphics application such as Microsoft PowerPoint to your company's credit control software. And neither of those applications would have to be installed on the notebook computer to do so.

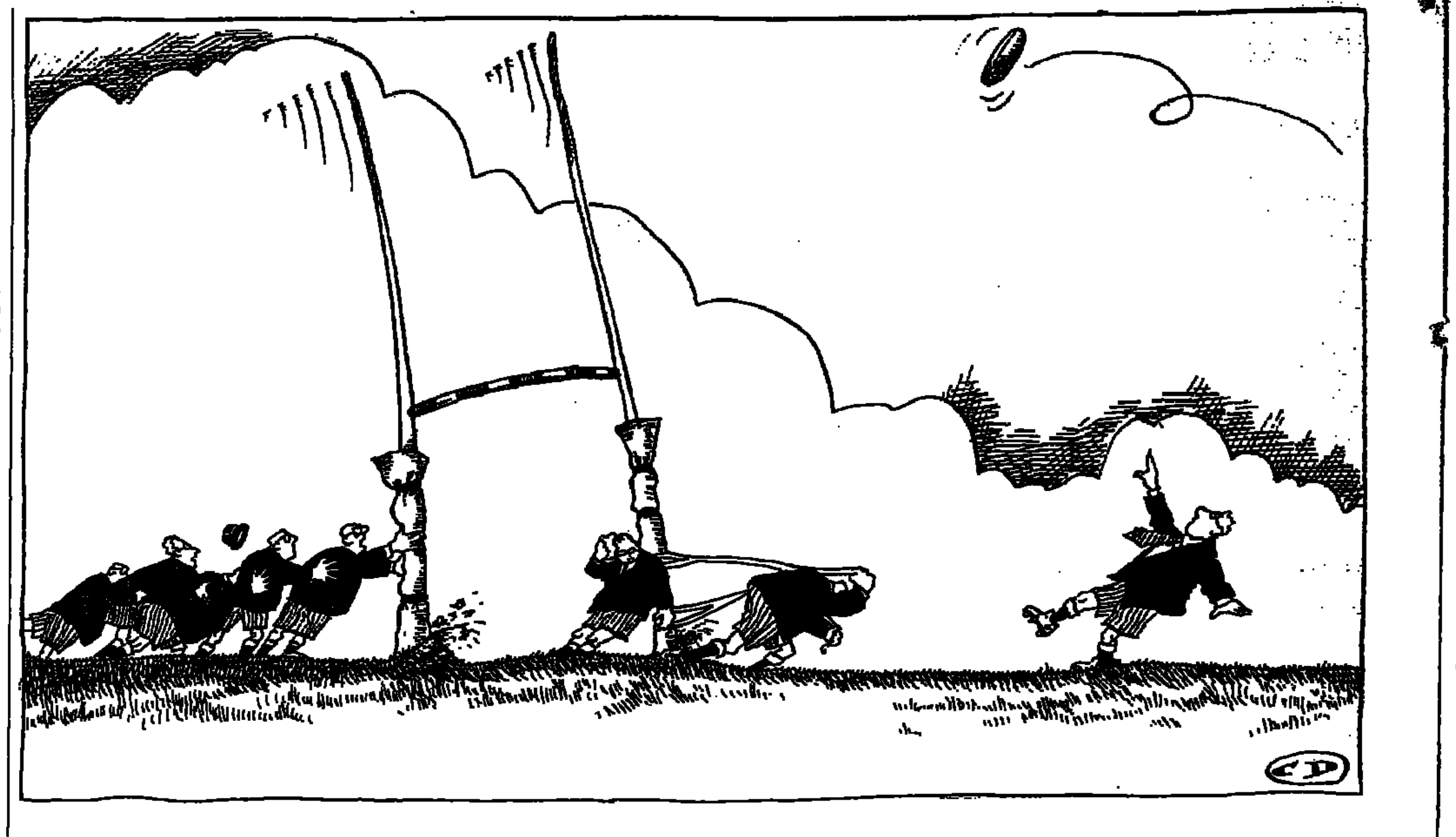
Like most remote control applications, pcAnywhere32 (which sells for $149.95 in the US, and £90-£100 in the UK) operates by allowing the computer that is doing the remote control to send data about keyboard input and mouse movements to the "host computer". The host computer then acts on those mouse movements and keystrokes as if they came from a user sitting in front of it. Meanwhile, all the video information displayed on the desktop computer's screen is "mirrored" to the remote notebook computer so that, as far as the remote control user is concerned, the software running on the host computer looks like it is actually being executed on the notebook.

The remote control link can be created via a corporate network, a "virtual private network" (VPN), an internet connection or direct phone line connection.

Remote control software can also be used to conduct training sessions remotely (so that you can "show" someone how to use software without having to stand beside them). It can further be used to diagnose computer problems remotely (by allowing support staff to see the same problems that users see) and to check faxes that may have arrived on the host computer.

None of this means, however, that using remote control software will leave your desktop computer open for the world to link up to. Most remote applications provide at least an "ID and password" style of security and more established products such as pcAnywhere also include encryption software. That means that anyone intercepting data passing between the host and remote control computers would not be able to decipher it.





MANAGEMENT EXECUTIVE SHARE OPTIONS

Moving the goalposts

Richard Waters reports on the repricing of stock options, a practice that is becoming increasingly common in the US as share prices fall

You could call it a case of "Heads I win, tails you lose". Some US companies seem to make a habit of adjusting the terms of their stock option plans when their share prices fall. By reducing the price at which the options are exercised, a company can spare its executives much of the pain that outside shareholders suffer.

The practice has been limited mainly to Silicon Valley – where the stock option is a mainstay of remuneration and where share prices have proved more volatile than in the market at large. Apple Computer and Advanced Micro Devices have both reset the terms of their options on several occasions.

After the broad stock market decline of recent weeks, however, repricing stock options is poised to enter the mainstream. "We expect to see a whole wave of them," says Patrick McGurn of Institutional Shareholder Services, a group that advises US institutions. The result is likely to be seen at next year's annual meetings, as activist shareholders seek to clamp down on a practice that many feel distorts the purpose of share options.

The people feeling the greatest pain from the stock market slide are the ones who have the most to lose: the chief executives who have received the biggest options grants near the market's peak.

So-called "mega-grants" – large, one-off tranches of options, perhaps given only once every five years – have become a popular fixture of US executive rewards. Almost half of all option grants fell into this category last year, according to William M. Mercer, a benefits consulting firm.

"CEOs have bought into this new paradigm that stocks only rise, never fall; so a lot of them have clamoured for mega-grants," says Graef Crystal, an executive compensation expert.

Among this year's beneficiaries, George Fisher, the chairman of Eastman Kodak, was given the right to buy 2m shares at $90⅝. Kodak's stock may have fared better than most recently but it is still about $9 below the exercise price, leaving Mr Fisher's options distinctly "underwater".

Perhaps worse off still are executives who accepted "premium stock options" – a popular form of option that can only be exercised when a company's stock attains a pre-determined target.

David Coulter, chairman of BankAmerica, was awarded options over nearly 2m shares this year that were to be triggered in stages as the bank's stock rose from $72 to as high as $108.

A surge in bank stocks drove BankAmerica's shares above $100, leaving Mr Coulter a paper profit of more than $25m (£15m). However, the shares have now tumbled back below $65; well below the trigger price.

Such premium options often come with a deadline – something known as a "barrier option". John Reed, chairman of Citicorp, was last year awarded 300,000 options at a price of $120⅝ – but only if Citicorp's stock reached $200 within five years. The $34m bonanza was nearly triggered this year when the stock touched $182. But the bank's shares have now fallen back below the trigger price and stand at about $100.

Despite this big setback for the elite of the options world, it seems unlikely that many will see their option arrangements repriced to lower the barrier: to do so would cause an outcry among other shareholders. "I would think many CEOs will say they want to take their chances with the market," says Howard Golden, a remuneration pensation consultant at Mercer.

The same is unlikely to hold for less senior executives or for workers covered by company-wide schemes. Options that are deeply underwater give ambitious employees little reason to stay. "If you don't reprice [the options] for second- and third-tier management, you may lose them," says Mr Golden.

The distinction between senior executives and the rest was one made recently by Cendant, Oxford Healthcare and Sunbeam. The three companies had, for various reasons, seen their share prices go through the wringer before the general market decline. All three adjusted their stock option arrangements for most staff, but not for top management.

Where exactly should the line be drawn? At Sunbeam, the buck seems to have stopped with only three people: Al Dunlap, the former chairman, and his two closest lieutenants: all three have left the company. A new management team has been appointed, with fresh stock options priced at a much lower starting point.

Shareholders at next year's annual meetings will seek to clamp down on a practice that many feel distorts the purpose of share options

Justifying the decision, Charles Elson, a Sunbeam director, says: "Repricing is bad when it rewards the people who caused the problem." However, that clean distinction is not always easy to make, particularly when a company's share price collapses as part of a more general market decline.

American companies that reprice options are likely to find themselves increasingly circumscribed in what they can do. For a start, the New York Stock Exchange is reconsidering a recent ruling that aroused the ire of activist shareholders. This made it possible for companies to change the terms of option plans without seeking shareholder approval, provided at least one-fifth of a company's workers are eligible and top executives get no more than half the options. Groups such as Institutional Shareholder Services want this reversed.

Also, repricing options may soon have a direct cost in profit-and-loss terms. The Financial Accounting Standards Board ruled last month that repriced options should be treated as an expense against profits – unlike standard options which, controversially, companies are allowed to show only in a footnote to their accounts.

Repriced options are different, according to the FASB: they fall under a long-standing ruling that variable option schemes, unlike fixed-price ones, have much in common with other forms of remuneration and should be expensed. For the technology companies that were the most vocal opponents of expensing all options, this accounting ruling on repricing will greatly limit the attractions of such a decision.

And if all else fails, there is always shame. An American company that wants to reprice the options of its five highest-paid executives must produce a detailed review of any other repricings they have undertaken during the past 10 years.

"They have to wash all their old dirty laundry in public," says Mr Crystal. "The last thing they want to do is trot all that out in front of shareholders again."

Facing a serious erosion in their option-dependent wealth, however, many more American executives may decide to swallow their pride in the months ahead.

IMPROVING STOCK OPTION PLANS

An incentive connection

Diane Summers on two studies that point to a need to strengthen the link between reward and performance

What is the point of a stock option plan? Clearly the idea should be to link executive reward to the business's performance. However, many companies are failing to tie the two together as closely as they might, two new studies show.

The first, by Brian Hall, an associate professor at Harvard Business School, focuses on chief executives and points to a number of improvements that could be made to schemes.

After studying nearly 500 large US companies he concludes that, because the valuation of options is so complicated, many executives do not understand how the value of their options changes in response to the shifts in the value of the company. "If options are not understood, how can they provide the right incentives?" he asks in the September-October issue of the Harvard Business Review.

A start would be for companies to measure the value of chief executives' options every quarter, he suggests.

He also believes companies should restrict the ease with which chief executives can sell their shares, and putin place guidelines to ensure they hold a sufficient amount of both stock and stock options.

"Companies need to ensure that CEOs retain enough stock and options to keep their incentives aligned with shareholders' interests," he says.

A separate study of global share plans is from consultants Arthur Andersen.* Its responses from more than 350 large companies in Asia-Pacific, Europe and the US, indicate that few organisations are precise in setting and communicating performance targets for their schemes.

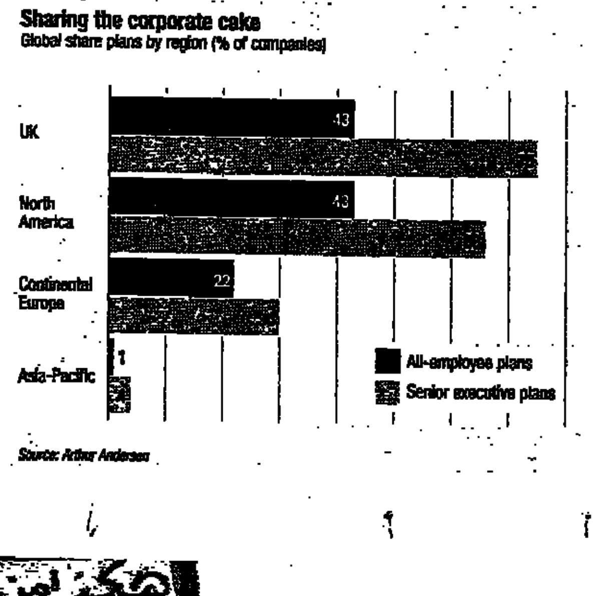
"There are opportunities for companies to focus more clearly on their objectives before implementing global share plans. This would result in plans being more precisely designed to complement business objectives which, in turn, should result in greater benefits both to companies and their shareholders," it concludes.

Overall, the survey found that companies in North America and the UK are more likely than their counterparts from Asia-Pacific and continental Europe to have global share plans (see graph). "This may potentially put the latter's North American and UK subsidiaries at a competitive disadvantage in the local labour market," says Arthur Andersen. Japanese companies are currently at a particular disadvantage because normally only employees of a Japanese company, as distinct from its foreign subsidiaries, can participate in a Japanese share plan, the study comments.

As expected, senior executive plans were found to be more common than all-employee plans. However, the gap between the two was not as great as might have been anticipated, say the consultants. Looking ahead, the expected growth in global share plans during 1999 is nearly 8 per cent for all-employee plans and 10 per cent for senior executive plans. However, Arthur Andersen expects growth in Germany and Japan to remain minimal.

Companies are expected increasingly to look at ways of reducing the costs of share plans. This will be in the context, concludes the report, of maximising tax deduction opportunities, and "ensuring that the levels of rewards are reduced unless stretching performance targets are achieved".

Sharing the corporate cake
Global share plans by region (% of companies)



Source: Arthur Andersen

Global share plan survey 1998, Arthur Andersen. £75. Tel: 0171 438 3862. www.aasharenet.com

EURO PRICES

EQUITIES

Europe rises on back of Wall St

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices rose sharply yesterday on the back of a strong Wall Street rally, with the FTSE Eurotop 300 index closing up 33.4 points or 3.2 per cent at 1,078.09.

Markets on both sides of the Atlantic were responding to Friday's Starr report on Bill Clinton's presidency, which contained little that had not already been discounted, and to weekend polls suggesting most Americans wanted the president to complete his term.

They were also cheered by signs that world leaders were placing more emphasis on addressing the global economic turmoil.

The FTSE Eurotop 100 index closed up 71.03 points at 2,476.99 while the FTSE Ebloc 100 index, which tracks companies from countries in the first wave of European monetary union, ended 26.82 higher at 893.89.

The rally was broad-based, but FTSE sectors showing particular strength included oil exploration and production, up 9.43 per cent, as Britain's Enterprise Oil, buoyed by bid speculation, soared Ecu 0.5 to Ecu 5.37.

Information technology rose 5.99 per cent, with Cap Gemini up Ecu 8.2 at Ecu 144.76 and SAP (pref) up Ecu 29.6 at Ecu 525.42.

Retail banks, which fell nearly 3 per cent on Friday, rose 4.16 per cent, with BNP up Ecu 3 at Ecu 52.35, KBC Holdings up Ecu 5.1 at Ecu 66.62 and Deutsche Bank up Ecu 1.9 at Ecu 52.80.

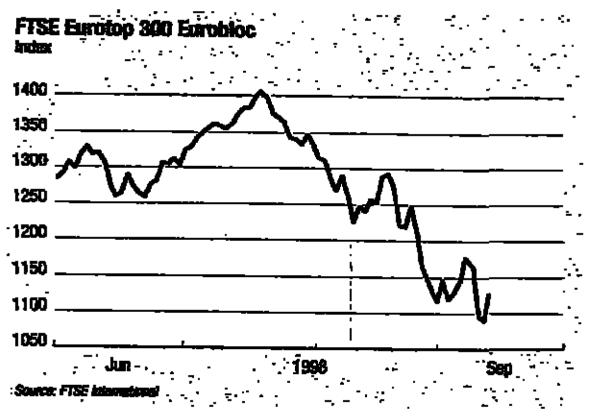
Other sharply rising sectors included support services, up 4.37 per cent, and alcoholic beverages, up 5.37 per cent. French drinks group LVMH rose Ecu 2 to Ecu 131.87

Meanwhile, Mark Howdle, European equity analyst at Salomon Smith Barney, argued in a research report that the dollar was expected to continue to fall against the Euro basket of currencies.

This was reason to expect the German market to underperform Europe, with dollar-sensitive traded goods sectors like automobiles, chemicals, engineering and metal stocks most affected.

However, the relative performance of Europe generally against the US was less clear cut and factors such as relative earnings growth and interest levels could work in Europe's favour.

FTSE Eurotop 300 Eurobloc
Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Oct		95.850	-0.010			0	0
Dec	96.370	96.370	-0.020	96.390	96.350	1132	9317
Mar		96.525	-0.045			0	5209
Jun		96.500	-0.060			0	2021

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Sep	Oct	Nov	Dec	PUTS Sep	Oct	Nov	Dec
96000	0	0.370	0.375	0.385	0.150	0	0.005	0.015
96125	0				0.275			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2470.0	2470.0	+75.0	2475.0	2470.0	23	2785
Dec	2495.0	2495.0	+78.0	2495.0	2495.0	21	2784
Mar		2504.5	+78.0			0	117

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2425 C	2425 P	2450 C	2450 P	2475 C	2475 P	2500 C	2500 P	2525 C	2525 P	2550 C	2550 P	2575 C	2575 P	2600 C	2600 P
Sep	78	29	58	37	45	48	35	64	24	81	17	100	11	119	8	140
Oct	152	96	136	105	121	116	107	127	85	140	83	153	72	167	63	183

Est vol total: Prev day's open interest total: 7,457 . Premiums shown are based on settlement prices.

OTHER INDICES

	Sep 14	Sep 11	Sep 10	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2989.40	2900.26	2914.00	3670.82	2574.51	3670.82	2900.26
DJ Euro Stx 50	2958.55	2890.98	2903.71	3658.48	2468.61	3658.48	2885.52
MSCI Europe	(u)	1046.65	1052.69	1315.55	960.50	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

September 14

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rete (Ecu)
FTSE Eurotop 300	1078.09	+3.20	+33.40	2.64	22.78	1107.25
FTSE Eurotop 100	2476.99	+2.95	+71.03	2.61	34.08	885.68
FTSE Ebloc 100	893.89	+3.09	+26.82	2.26	14.09	906.38
FTSE Eurotop 300 Regions						
Eurobloc	1126.88	+3.25	+35.51	2.29	20.54	1149.86
UK	999.82	+3.48	+33.63	3.24	29.32	1043.39
Europe Ex-Eurobloc	1039.10	+3.14	+31.62	3.01	34.00	1071.82
Europe Ex-UK	1123.34	+3.06	+33.33	2.25	19.11	1143.46
FTSE Eurotop Industry Sectors						
RESOURCES	865.72	+3.84	+32.85	3.37	25.41	901.26
Extractive Industries	710.39	+4.72	+31.98	5.01	6.64	717.32
Oil, Integrated	839.54	+3.87	+31.30	3.29	18.25	856.27
Oil, Exploration & Prod	625.27	+9.43	+53.90	5.43	11.69	638.33
GENERAL INDUSTRIES	1018.57	+2.45	+24.34	2.77	19.53	1038.20
Construction	914.45	+2.16	+19.34	2.77	11.88	925.10
Building Matls & Merchs	828.97	+2.53	+20.43	3.17	8.66	835.14
Chemicals	821.76	+1.96	+15.84	2.94	16.87	835.67
Diversified Industrials	911.29	+2.60	+23.08	2.40	17.48	926.92
Electronic & Elect Equip	886.14	+2.39	+21.58	1.80	4.86	890.42
Engineering	871.93	+2.70	+22.95	3.86	8.57	880.08
Paper, Pckg & Printing	748.66	+2.60	+19.02	3.12	1.21	750.59
CONSUMER GOODS	1094.34	+2.34	+25.08	1.89	15.57	1121.30
Automobiles	890.93	+2.34	+20.34	2.93	10.25	899.20
Alcoholic Beverages	826.40	+5.37	+42.15	2.85	6.46	832.05
Food Producers	897.34	+1.98	+17.26	1.79	8.79	905.93
Household Goods & Texts	959.59	+0.18	+1.68	2.03	7.01	965.85
Healthcare	888.75	+0.54	+4.74	1.34	9.52	897.79
Pharmaceuticals	979.72	+2.38	+22.78	1.33	4.81	984.55
Tobacco	1124.26	-2.09	+22.09	3.94	1.21	1126.37
SERVICES	1125.98	+3.65	+39.67	2.34	21.18	1155.45
Distribution	733.22	+0.42	+3.06	3.02	11.37	741.46
Leisure & Hotels	737.02	+3.98	+28.24	3.41	12.27	746.66
Media	962.57	+3.85	+35.72	2.43	9.53	971.74
Retailers, Food	1002.70	+3.30	+32.00	2.99	11.37	1014.32
Retailers, General	998.25	+3.62	+34.90	3.45	16.53	1014.52
Telecommunications	1011.64	+3.73	+36.42	1.63	13.02	1023.93
Breweries, Pubs & Restg	806.23	+2.45	+19.26	3.37	14.20	818.49
Support Services	923.00	+4.37	+38.64	1.52	6.84	929.46
Transport	914.17	+2.54	+22.69	2.89	15.60	927.77
Information Technology	1151.65	+5.99	+65.11	0.36	2.23	1154.27
UTILITIES	1387.32	+2.12	+28.85	3.19	53.92	1482.40
Electricity	1043.13	+1.43	+14.74	3.36	26.23	1073.04
Gas Distribution	1086.71	-3.71	+38.91	1.69	84.81	1196.78
Water	1055.15	+3.04	+31.43	4.82	38.72	1105.84
FINANCIALS	1094.05	+3.90	+41.08	3.10	26.45	1122.35
Banks, Retail	754.04	+4.16	+30.08	4.07	12.59	763.76
Insurance	849.07	+3.83	+31.35	1.53	11.45	858.88
Life Insurance	1000.71	+3.01	+29.26	1.89	9.10	1009.31
Other Financial	778.38	+2.34	+17.74	2.82	14.05	786.33
Investment Companies	881.76	+2.95	+25.25	2.91	28.86	898.24
Property	794.34	+3.02	+23.26	3.37	16.91	808.93

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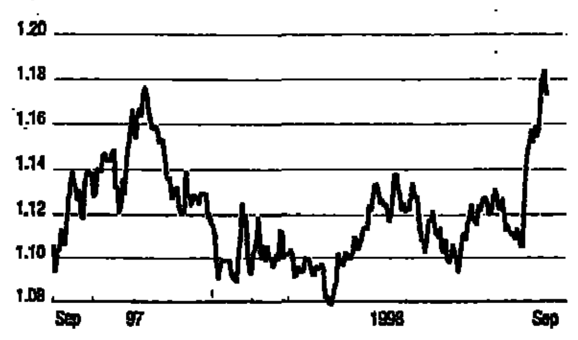
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Sep 14	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.050394	+0.0070	+0.05	-0.0009	-0.01
Belgium	BEF	41.230558	+0.0021	+0.01	+0.0045	+0.01
Czech Republic	CZK	35.839138	+0.0612	+0.17	+0.4255	+1.20
Denmark	DKK	7.607237	-0.0178	-0.23	+0.0045	+0.06
Finland	FIM	6.083795	+0.0020	+0.03	+0.0044	+0.07
France	FRF	6.699672	-0.0032	-0.05	+0.0005	+0.01
Germany	DEM	1.998286	+0.0010	+0.05	+0.0000	+0.00
Greece	GRD	342.616062	-1.5779	-0.46	-1.0252	-0.30
Hungary	HUF	258.676584	-0.6227	-0.24	+1.5871	+0.62
Ireland	IEP	0.798446	-0.0001	-0.01	+0.0017	+0.21
Italy	ITL	1973.293929	-0.5512	-0.03	-0.6349	-0.03
Luxembourg	LUF	41.230556	+0.0021	+0.01	+0.0045	+0.01
Netherlands	NLG	2.253835	+0.0006	+0.03	-0.0019	-0.08
Norway	NOK	8.887801	-0.0415	-0.47	-0.0344	-0.39
Poland	PLN	4.208121	-0.0875	-2.04	+0.0001	+0.00
Portugal	PTE	204.803459	+0.0219	+0.01	+0.2312	+0.11
Romania	ROL	10633.235958	-76.2300	-0.71	+161.0655	+1.54
Russia	RUB	10.031908	-3.6951	-26.92	-16.0327	-61.51
Slovakia	SKK	40.987731	-0.2148	-0.52	+0.0458	+0.11
Spain	ESP	169.709379	-0.1037	-0.06	+0.0637	+0.04
Sweden	SEK	9.242027	-0.0397	-0.43	+0.0574	+0.63
Switzerland	CHF	1.647697	+0.0058	+0.35	+0.0133	+0.81
United Kingdom	GBP	0.699770	-0.0030	-0.43	+0.0058	+0.83
ECU	ECU	1.016801	-0.0004	-0.04	+0.0011	+0.11
Americas						
Brazil	BRL	1.384169	-0.0105	-0.76	+0.0195	+1.43
Canada	CAD	1.777701	-0.0130	-0.72	+0.0163	+0.93
Mexico	MXN	12.360953	-0.1236	-0.99	+0.5856	+4.97
United States	USD	1.173323	-0.0100	-0.85	+0.0149	+1.28
Pacific/Middle East/Africa						
Australia	AUD	1.971769	+0.0061	+0.31	+0.0117	+0.60
Hong Kong	HKD	9.087970	-0.0828	-0.90	+0.1119	+1.25
Japan	JPY	156.116437	+1.0422	+0.67	+3.5749	+2.34
Singapore	SGD	2.034541	+0.0009	+0.05	+0.0331	+1.66
South Africa	ZAR	7.303933	-0.1096	-1.48	+0.1738	+2.44

Source: FTSE International Ltd This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "In" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0388, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0167.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

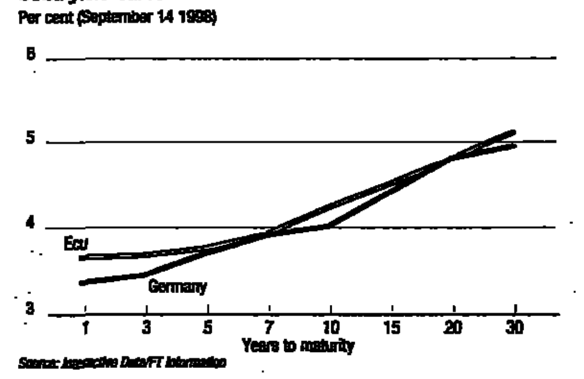
Bilateral conversion rates against the D-Mark

Sep 11	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0363	+0.01	+0.01	7.0374	3.53	+0.05
Belgium	20.6255	20.6423	+0.08	+0.04	20.6453	3.53	+0.05
France	3.35386	3.356	+0.06	-0.03	3.3566	3.54	+0.06
Finland	3.04001	3.045	+0.16	+0.07	3.0453	3.51	+0.03
Ireland	0.402676	0.3998	-0.71	-0.90	0.4022	5.47	+1.99
Italy	990.002	988.2688	-0.18	-0.24	992.2534	4.81	+1.33
Luxembourg	20.6255	20.6423	+0.08	+0.04	20.6453	3.53	-0.35
Netherlands	1.12674	1.1282	+0.13	+0.16	1.1278	3.36	-0.12
Portugal	102.505	102.5299	+0.02	-0.03	102.7214	4.1	+0.62
Spain	85.0722	85.0219	-0.06	-0.21	85.1943	4.15	+0.67
Germany	1		+0.00	+0.00		3.48	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3. Forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (September 14 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Sep 14	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	110.510	4.37	+0.05	-0.35	+0.05
France (Rep of)	04/08	5.250	N/A	108.100	4.20	+0.03	-0.38	-0.09
Italy (Rep of)	05/08	5.000	AA	104.170	4.46	+0.01	-0.26	+0.17
Portugal (Rep of)	06/08	5.375	AA-	107.300	4.44	+0.01	-0.29	+0.15
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.505	3.99	+0.03	-0.36	+0.12
Gen Electric Cap Crp	10/04	5.500	AAA	107.570	4.06	+0.06	-0.37	+0.17
Oest Kontrollbank	04/08	5.250	AAA	105.970	4.47	-0.04	-0.23	+0.18
Cred Local de France	04/08	5.250	AA+	104.420	4.66	+0.02	-0.18	+0.37
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	102.829	3.91	+0.04	-0.34	+0.17
Cred Foncier France	03/04	8.375	A	118.256	4.54	+0.07	-0.42	+0.65
Euro Inv Bank	04/04	5.250	AAA	106.630	3.90	+0.05	-0.36	+0.01
ABN Amro Hldg. NV	04/07	6.375	AA-	109.970	4.92	+0.02	-0.08	+0.72

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Sep 14	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.06	+0.03	+0.23	+0.02	-0.20	+0.14
Belgium	-0.12	-0.01	+0.15	+0.12	+0.12	+0.05
Finland	-0.19	+0.09	+0.21	+0.18	-0.35	-0.67
France	-0.16	-0.10	-0.08	-0.05	-0.03	-0.13
Germany	-0.22	-0.10	+0.01	-0.28	+0.06	-0.17
Ireland	+0.52	-0.14	+0.03	+0.15	+0.24	+0.63
Italy	+0.28	+0.24	+0.29	+0.23	+0.20	+0.25
Luxembourg	-0.12	-0.01	+0.15	+0.12	+0.12	+0.05
Netherlands	-0.15	-0.04	+0.03	-0.09	+0.01	-0.14
Portugal	-0.04	+0.15	+0.22	+0.19	+0.48	+0.30
Spain	-0.07	+0.08	+0.23	+0.26	+0.21	+0.24
"OUTs"						
Denmark	+0.66	+0.50	+0.55	+0.35	+0.23	+0.56
Greece	+8.29	+5.67	+4.88	+3.99	+2.94	+2.62
Sweden	+0.54	+0.59	+0.63	+0.45	+0.40	+0.08
UK	+2.32	+1.53	+1.37	+0.79	+0.34	-0.21

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Sep 14	S & P rating	Red date	Coupo	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.04	+0.04	+0.04
France Telcom	AA+	11/06	6.250	FRF	+0.20	+0.17	+0.14
Halifax	AA	07/07	5.625	DEM	+0.33	+0.23	+0.25
Ing Bank NV	AA-	01/08	5.500	NLG	+0.16	+0.25	+0.19
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.29	+0.24	+0.33
Cred Foncier	A	02/03	7.250	DEM	+0.56	+0.66	+0.32
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.40	+0.40	+0.42
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.34	+0.34	+0.33
Bank of China	BBB	07/99	7.125	DEM	+3.29	+5.42	+1.44
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+2.23	+0.98	+0.75
Korea Dev Bank	BB+	11/02	5.625	FRF	+10.49	+9.49	+6.31
Argentina	BB	04/08	8.125	XEU	+9.36	+8.05	+3.57

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "In" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Dom	7.65	+.3	7.4	2.8	5.1
[illegible]					
AUTOMOBILES					
[illegible]					
BANKS RETAIL					
[illegible]					
BREWERIES, PUBS & RESTAURANTS					
[illegible]					
BUILDING MATERIALS & MERCHANTS					
[illegible]					
CHEMICALS					
[illegible]					
CONSTRUCTION					
[illegible]					
DISTRIBUTORS					
Adidas Salom	92.78	+.1	4.3	0.1	0.9
[illegible]					
DIVERSIFIED INDUSTRIALS					
[illegible]					
ELECTRICITY					
[illegible]					
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]					
ENGINEERING					
[illegible]					
EXTRACTIVE INDUSTRIES					
[illegible]					
FOOD PRODUCERS					
[illegible]					
GAS DISTRIBUTION					
[illegible]					
HEALTH CARE					
[illegible]					
HOUSEHOLD GOODS & TEXTILES					
[illegible]					
INFORMATION TECHNOLOGY					
[illegible]					
INSURANCE					
[illegible]					
INVESTMENT COMPANIES					
[illegible]					
LEISURE & HOTELS					
[illegible]					
LIFE INSURANCE					
[illegible]					
MEDIA					
[illegible]					
OIL, EXPLORATION & PRODUCTION					
[illegible]					
OIL, INTEGRATED					
[illegible]					
OTHER FINANCIAL					
[illegible]					
PAPER PACKAGING & PRINTING					
[illegible]					
PHARMACEUTICALS					
[illegible]					
PROPERTY					
[illegible]					
RETAILERS, FOOD					
[illegible]					
RETAILERS, GENERAL					
[illegible]					
SUPPORT SERVICES					
[illegible]					
TELECOMMUNICATIONS					
[illegible]					
TOBACCO					
[illegible]					
TRANSPORT					
[illegible]					
WATER					
[illegible]					

Notes
[illegible]

INTERNATIONAL CAPITAL MARKETS

Prices fall on US rate cut expectations

GOVERNMENT BONDS

By Khozem Merchant in London and Tracy Corrigan in New York

Bond markets saw a technical correction yesterday, driven largely by the rebound in equity prices across Europe.

The common thread, however, was the strong perception that the US Federal Reserve would cut interest rates, possibly as part of co-ordinated action by Group of Seven countries. G7 officials yesterday began preparatory meetings on Russia.

"The issue now is whether the central banks, and the Fed in particular, can deliver," said Andy Bevan, at Goldman Sachs.

Mr Bevan struck a contrary note on the interest rate debate, saying that although recent market movements were "strongly underpinned by expectations of a rate cut, we think the Fed will not cut in the short term. There may be some near-term disappointment for the market."

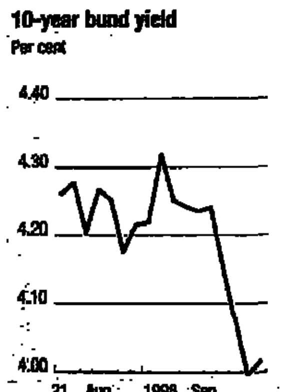
US TREASURIES edged lower in morning trading as the market marked time ahead of President Bill Clinton's televised speech. Following its recent dramatic rally driven by the flight to quality as a result of global market turmoil, the bond market was depressed by a rally in the stock market.

Mr Clinton was expected to call for a meeting of finance ministers from the G7 countries and key emerging market countries, and to echo recent comments by Alan Greenspan, the Federal Reserve chairman, suggesting that an interest rate cut was being considered.

In late morning trading, 30-year bonds were down [illegible] at 103[illegible] to yield 5.25 per cent, while 10-year bonds were off [illegible] at 105[illegible] to yield 4.88 per cent. Two-year notes were down ⅛ at 100[illegible] to yield 4.75 per cent.

GERMAN BUNDS again drifted lower amid modest trading as strong share price movements pulled away funds, but they continued to set the pace for other European markets. Traders said the weaker performance was in line with expectations following last week's record breaking surge.

The December bund future settled 0.43 lower at 113.25 in modest turnover on the DTB, where 305,000 contracts were traded. In the cash market, the yield on 10-year bunds also climbed back above 4 per cent after crashing through it on Friday as global markets tumbled. The yield ended at 4.03 per cent.



"The German market is very quiet. This is not a time for taking a major bet with so many crucial political and economic events lined up over the next three weeks," said Allison Cottrell at PaineWebber.

The weekend electoral triumph in Bavaria of Edmond Stoiber, the incumbent conservative premier, appeared to boost the chances of Chancellor Helmut Kohl in the general election later this month, which briefly cheered the markets.

If the market moves, it will be because of outside factors, Ms Cottrell said, such as the Fed acting or further upheaval in Russia.

Markets were kept on edge by the crisis surrounding Mr Clinton, although pressure for him to be impeached appeared to be receding. But combined with the shadow cast by Russia's difficulties, the mood in Washington has added an extra layer of uncertainty to investor perceptions of where markets are headed, analysts said.

UK GILTS gave up some of the gains of last week, with the December future settling 0.25 lower at 113.58. Volume on Liffe slowed to a trickle, with just 26,000 contracts exchanged. The 10-year gilt yield was 5.19 per cent, with the spread to bunds at 123 basis points, down from 124 points last Friday.

The market shrugged off data showing producer prices fell 0.2 per cent in August. That was lower than expected, suggesting inflation at the wholesale level remains under control.

The data buoyed sentiment in early morning trading but failed to drive the market forward as equities took centre stage.

Malaysia in credit warning

By Sheila McNulty in Kuala Lumpur

Bank Negara, Malaysia's central bank, yesterday warned foreign-owned banks against cutting foreign exchange and letter of credit lines to Malaysian banks.

"If their head office or sister banks attempt to reduce or cut off such lines from the Malaysian banks, based solely on the implementation of the new exchange control measures, this will be seen by Malaysia as an unfriendly move," Ali Abul Hassan Sulaiman, central bank governor, said. He insisted Malaysia could honour its foreign commitments.

The move came hours after Moody's Investors Service, the rating agency, downgraded Malaysia's long-term foreign currency country ceiling for bonds and notes from Baa2 to Baa3, one level above junk status.

It also put Malaysia on review for possible downgrade, citing developments that "heightened uncertainty surrounding the country's external financial position over the medium term".

Moody's also lowered, and placed under review for further possible downgrade, the debt, deposit and bank financial strength ratings of five leading Malaysian banks: Malayan Banking; Bank Bumiputra; Public Bank; RHB Bank; and Sime Bank.

Mahathir Mohamad, Malaysia's prime minister, has appointed Salomon Smith Barney, the US investment bank, to advise on restructuring and recapitalising the banking sector over the next two years, and to help Malaysia raise funds overseas.

Deryck Maughan, co-chairman and chief executive of Salomon Smith Barney, said it would not look to the international rating agencies but would perform its own evaluation.

Derivative exchanges in rush to form alliances

Bürgenstock conference agenda takes second place to worries over global trends, writes **Vincent Boland**

The heavy fog that descended last Friday on the Alpine village of Bürgenstock, host to a gathering of derivatives market specialists from the US and Europe, aptly summed up the mood of the futures markets in their rush to form global alliances.

While the conference itself concentrated on the impact of the internet on the derivatives industry and the advent of virtual markets, the real focus of most participants was on the next stage of the trend towards global alliances, among both derivative and equity exchanges.

"We all know where we are and how we got here; now we need find out where we go from here," said one participant at the conference organised by the Swiss Futures and Options Association.

"We all have so much money invested in individual technologies that taking alliances further is going to be extremely difficult."

For many exchange officials, there was a realisation that they were now at the mercy of their clients – the big investment banks and global financial firms.

These institutions are increasingly driving the pace of alliances and mergers, as well as developing in-house trading systems that might soon bypass the traditional exchanges and forge a new relationship between clients and markets.

"We are one of the few financial services industries in the world with a very low level of loyalty from customers," admitted Otto Nägeli, a member of the executive board of Eurex, the German/Swiss derivatives market.

Eurex begins life at the end of this month after a merger of Deutsche Terminbörse, Frankfurt's derivatives exchange, and Soffex, its counterpart in Zurich.

This lack of customer loyalty is one reason why the London International Financial Futures and Options Exchange is closely consulting with its biggest customers ahead of the unveiling of its restructuring plans, which will be put to a board meeting on October 20.

While Liffe's plans were the subject of intense speculation at Bürgenstock, also under the microscope was the Euro-alliance due to have been forged between Eurex and Matif, the Paris derivatives market. Both sides said yesterday they had signed a cross-membership agreement to take effect by the end of 1998.

However, it is widely believed that the equity market alliance unveiled in July between the London and Frankfurt stock exchanges has jeopardised the Euro-alliance by opening up a rift between French and German stock market officials.

Jean-François Théodore, chairman of Société des Bourses Françaises, which runs the Paris financial markets, said there would be "a reappraisal" of the Euro-alliance in the next few months, but insisted the London-Frankfurt agreement had not had an impact.

"We are progressing slowly – but still progressing – on our partnership with Eurex, mainly due to technical difficulties. We have an agreement, with only a few details still to be worked out," Mr Théodore said.

However, Mr Nägeli said the alliance "has become more difficult" because of other developments.

The equity trading agreement between London and Frankfurt was also the subject of much debate. Many exchange officials admitted they were still in the dark about the details, which neither side has yet revealed.

"The disclosure so far [from London and Frankfurt] has been very, very poor," said Massimo Capuano, chief executive of the Borsa Italiana, echoing widespread disappointment that many of the continent's stock markets are being excluded from initial discussion on what could become the pan-European stock exchange.

He said a common trading platform for European equities after the introduction of the euro at the start of next year was a good idea. However, he and other exchange officials were lukewarm on a proposal by the SBF to create a rival alliance of European stock exchanges, particularly if it was cast as a rival market to the Anglo/German proposal.

"I do not think there is room in Europe for two antagonistic exchanges," Mr Capuano said.

Otto Nägeli: Euro-alliance 'has become more difficult'

FT/S&P to remove Malaysia from index

By Our Financial Staff

Malaysia is to be removed from the FT/S&P World Index, a leading benchmark for equity fund managers, because of the government's introduction of exchange controls at the start of this month.

The policy committee that oversees the index said yesterday that Malaysia was in clear breach of its rules, which specify that the index measures the "investable market," and that there are no controls that would prevent the timely repatriation of capital and dividends.

However, Gordon Bagot, who heads the committee, said a Malaysian index would continue to be calculated outside the World Index, to allow clients to continue to measure their holdings against an established benchmark.

"Fund managers cannot simply stop benchmarking the investments that they are now obliged to maintain within Malaysia," Mr Bagot said.

Malaysia will be removed from the World Index from September 30 at the country's index market capitalisation at the close of business on that day.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Sep 14	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.2640	4.82	+0.07	-0.13	-0.33	[illegible]
	08/08	5.750	125.9708	5.34	+0.06	-0.08	-0.24	-1.07
Austria	07/00	5.375	103.8800	3.63	+0.04	-0.11	-0.32	-0.58
	01/08	5.000	105.1300	4.32	+0.05	-0.16	-0.34	-1.36
Belgium	01/00	4.000	100.4300	3.61	+0.05	-0.07	-0.22	-0.39
	03/08	5.750	110.5100	4.37	+0.05	-0.15	-0.35	-1.37
Canada	03/00	5.000	99.7000	5.21	+0.09	-0.32	-0.06	+1.17
	06/08	6.000	105.1800	5.31	+0.06	-0.17	-0.24	-0.66
Denmark	11/00	9.000	109.2800	4.37	–	-0.10	+0.11	-0.17
	11/07	7.000	117.3600	4.63	-0.01	-0.18	-0.15	-1.60
Finland	01/99	11.000	102.4146	3.07	+0.03	-0.17	-0.39	-0.79
	04/08	6.000	117.7910	4.46	+0.05	-0.14	-0.22	-1.41
France	01/00	4.000	100.5900	3.52	+0.03	-0.08	-0.26	-0.46
	04/05	7.500	120.8300	3.86	+0.05	-0.19	-0.44	-1.28
	04/08	5.250	108.1000	4.20	+0.03	-0.17	-0.38	-1.35
	04/29	5.500	107.5500	5.01	+0.04	-0.09	-0.17	-1.22
Germany	03/00	4.000	100.8000	3.43	+0.06	-0.04	-0.25	-0.45
	10/05	6.500	115.1400	4.00	+0.04	-0.18	-0.40	-1.26
	01/08	5.250	108.9700	4.07	+0.03	-0.18	-0.43	-1.58
	01/28	5.625	109.9000	4.97	+0.04	-0.08	-0.17	-1.34
Ireland	10/01	6.500	107.4200	3.90	+0.08	-0.21	-0.47	-1.80
	08/08	8.000	112.3500	4.43	+0.04	-0.17	-0.32	-1.88
Italy	04/01	4.500	101.5200	3.86	+0.05	-0.15	-0.40	-1.88
	05/03	4.750	103.0000	4.03	+0.04	-0.16	-0.41	-1.89
	05/08	5.000	104.2200	4.45	+0.01	-0.18	-0.31	-1.94
	11/27	6.500	117.6700	5.30	+0.02	-0.03	-0.05	-1.71
Japan	03/00	6.400	109.2400	0.22	-0.01	-0.15	-0.25	-0.28
	06/03	4.500	118.2400	0.60	–	-0.22	-0.34	-0.92
	09/05	3.000	114.7400	0.83	-0.01	-0.27	-0.40	-1.22
	03/18	2.700	118.2700	1.55	-0.03	-0.38	-0.53	-1.31
Netherlands	05/00	9.000	108.6500	3.49	+0.02	-0.14	-0.36	-0.56
	07/08	5.250	108.2600	4.20	+0.02	-0.17	-0.41	-1.39
New Zealand	02/01	8.000	104.6284	5.85	-0.04	-0.39	-0.63	-1.36
	11/06	8.000	112.4041	6.05	+0.02	-0.23	-0.22	-1.02
Norway	01/99	9.000	100.2900	7.73	-0.13	+0.08	+2.09	+3.27
	01/07	6.750	108.8500	5.40	-0.01	-0.10	+0.10	-0.52
Portugal	03/00	5.375	102.6100	3.55	+0.05	-0.20	-0.53	-1.60
	06/08	5.375	106.9800	4.47	+0.01	-0.15	-0.34	-1.78
Spain	04/00	6.750	104.6500	3.82	-0.01	-0.12	-0.41	-1.38
	01/08	6.000	111.6100	4.45	–	-0.16	-0.30	-1.74
Sweden	05/00	10.250	109.1841	4.24	+0.03	-0.08	–	-0.56
	05/08	6.500	113.3981	4.73	+0.02	-0.18	-0.06	-1.80
Switzerland	03/00	5.000	104.9200	1.59	+0.07	-0.05	-0.35	-0.13
	06/07	4.500	113.7000	2.71	+0.09	-0.09	-0.07	-0.86
UK	11/01	7.000	103.3750	5.81	+0.04	-0.16	-0.52	-1.06
	12/03	6.500	105.0156	5.38	+0.03	-0.17	-0.49	-1.54
	12/07	7.250	115.2344	5.15	+0.02	-0.13	-0.45	-1.78
	12/28	6.000	116.4063	4.95	+0.02	-0.10	-0.39	-1.91
US	05/00	5.500	101.0884	4.83	+0.09	-0.20	-0.53	-1.08
	05/03	5.500	102.9088	4.79	+0.07	-0.22	-0.61	-1.47
	05/08	5.625	105.5855	4.89	+0.06	-0.12	-0.50	-1.40
	11/27	6.125	111.5284	5.34	+0.03	-0.02	-0.26	-1.25
ECU	07/00	4.000	100.5300	3.89	+0.08	-0.09	-0.30	-0.80
	04/08	5.250	107.6900	4.25	+0.04	-0.17	-0.38	-1.66

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents

10 YEAR BENCHMARK SPREADS

Sep 14	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.33	+1.32	+0.44	New Zealand	6.05	+2.04	+1.16
Austria	4.31	+0.30	-0.58	Norway	5.31	+1.30	+0.42
Belgium	4.41	+0.40	-0.48	Portugal	4.48	+0.47	-0.41
Canada	5.31	+1.30	+0.42	Spain	4.55	+0.54	-0.34
Denmark	4.64	+0.63	-0.25	Sweden	4.74	+0.73	-0.15
Finland	4.47	+0.46	-0.42	Switzerland	2.92	-1.09	-1.97
France	4.24	+0.23	-0.65	UK	5.08	+1.07	+0.19
Germany	4.01	–	-0.88	US	4.89	+0.88	–
Ireland	4.44	+0.43	-0.45	ECU	4.29	+0.28	-0.60
Italy	4.52	+0.51	-0.37				
Japan	1.01	-3.00	-3.88				
Netherlands	4.20	+0.19	-0.69				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Sep 14	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB–	91.3739	10.02	-0.43	+2.12	+5.33
Poland	07/04	7.125	BBB–	92.4097	8.85	-0.34	+2.50	+4.10
Russia	06/07	10.000	CCC	21.8500	49.24	+0.29	+22.21	+44.39
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	84.0000	15.37	-0.49	+4.60	+10.13
Brazil	05/27	10.125	BB–	52.4500	19.37	-1.35	+8.63	+14.13
Mexico	05/26	11.500	BB	83.4551	13.83	-0.43	+3.24	+8.61
■ ASIA								
China	07/06	7.750	BBB+	92.1694	9.19	-0.43	+1.86	+4.37
Philippines	10/16	8.750	BB+	67.3005	13.67	-0.43	+3.24	+8.63
Thailand	04/07	7.750	BBB–	64.7421	15.25	-0.43	+4.89	+10.40
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	97.8031	10.45	-0.43	+2.63	+5.70
South Africa	10/06	8.375	BB+	83.7471	11.57	-0.43	+2.71	+6.75
Turkey	08/07	10.000	B	77.7238	14.60	-0.43	+3.69	+9.75
■ BRADY BONDS								
Argentina	03/23	5.750	BB	58.1250	10.92	-0.40	+2.19	+5.75
Brazil	04/14	5.000	BB–	53.3750	15.32	-0.59	+3.42	+10.32
Mexico	12/19	6.250	BB	67.7500	9.91	-0.12	+1.59	+4.82
Venezuela	03/20	6.750	B+	60.0000	11.96	-1.41	+1.78	+6.85

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	109.70	109.75	-0.13	109.77	109.58	57,841	33,092
Dec	109.20	109.25	-0.16	109.45	109.10	101,515	83,415

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
103	6.25	6.25	6.25	-	-	0.01
104	5.25	5.25	5.25	-	-	0.02
105	4.25	4.25	4.28	-	0.01	0.06
106	3.25	3.28	3.37	-	0.05	0.14

Est. vol. total, Calls 2,555 Puts 2,765. Previous day's open int., Calls 37,111 Puts 53,176.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.43	113.42	-0.26	113.80	113.25	169	5370
Mar		112.09	-0.26			0	0

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.49	113.28	-0.41	113.67	113.20	305,349	572,044
Mar	113.66	113.60	-0.16	113.88	113.60	1,266	6,005

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11300	0.66	1.05	1.36	0.24	0.63	0.94
11350	0.38	0.78	1.06	0.46	0.86	1.14
11400	0.19	0.56	0.84	0.77	1.14	1.42

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 8906 Puts 8490

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.28	108.11	-0.29	108.34	108.10	118,728	255,974
Mar	107.77	107.77	-0.29	107.77	107.77	400	201

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110.88	110.97	-0.01	111.12	110.32	13767	84109
Mar		110.95	-0.01			0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Puts Oct	Puts Nov
11050	0.57	0.82	0.10	0.35
11100	0.26	0.54	0.29	0.57
11750	0.09	0.33	0.62	0.86

Est. vol. total, Calls 0 Puts 1000. Previous day's open int., Calls 100 Puts 850

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	113.50	113.71	+0.02	113.71	113.40	89,244	22,363
Dec	114.42	114.60	-0.02	114.72	114.39	37,690	55,297

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		106.16	-0.11			0	581
Dec		106.31	-0.11			0	1694

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	113.24	113.34	-0.17	113.42	113.24	1	5122
Dec	113.50	113.58	-0.15	113.80	113.30	26281	147573

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11350	0.61	1.07	1.34	0.53	0.99	1.26
11400	0.39	0.83	1.10	0.81	1.25	1.52
11450	0.24	0.64	0.90	1.16	1.56	1.82

Est. vol. total, Calls 975 Puts 525. Previous day's open int., Calls 51353 Puts 23019

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	128–15	128–00	-0–19	128–27	127–29	19,110	81,843
Dec	128–13	127–27	-0–18	128–24	127–22	804,213	740,915
Mar	127–30	127–14	-0–30	127–30	127–14	6,219	67,784

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) ¥100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	137.87	137.86		137.94	137.80	821	na
Mar	137.09	136.99		137.09	137.09	100	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	108.00	108.00	–	–	–	13	10

US CORPORATE BONDS

Sep 11	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA–	105.5334	5.60	+0.06	-0.42	+0.96
NY Tel	09/25	7.00	A–	102.3523	6.80	+0.07	-0.18	+1.56
CWE	05/06	8.00	BBB	113.7898	5.89	+0.07	-0.26	+1.26
■ FINANCIALS								
GECC	05/07	8.75	AAA	120.3734	5.73	+0.07	-0.35	+0.90
Banc One	08/02	7.25	A+	105.6725	5.59	[illegible]	[illegible]	[illegible]
Media One	01/07	7.30	BBB	106.7111	6.25	+0.06	-0.20	+1.42
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1440	5.96	+0.10	-0.11	+1.45
Wal Mart	05/02	8.75	AA	105.1743	5.17	+0.11	-0.53	+0.53
Dayton Hud	06/21	9.70	BBB+	134.6104	6.71	+0.10	-0.01	+1.49
■ AGENCIES								
FHLMC	04/07	7.14	N/A	111.9473	5.38	+0.06	-0.37	+0.55
SLMA	03/00	7.50	N/A	103.2316	5.13	+0.09	-0.41	+0.45
FNMA	02/18	8.95	N/A	137.0524	5.75	+0.04	-0.21	+0.53
FFCB	06/06	8.95	N/A	122.5004	5.34	+0.07	-0.39	+0.51
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	95.2500	0.00	–	–	–
AK Stl	12/01	9.13	BB–	99.5000	0.00	–	–	–
Pacalta	06/04	10.75	B–	91.5000	0.00	–	–	–

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	4.77
Broker loan rate	7¼	Two month	-	Three year	4.71
Fed.funds	5[illegible]	Three month	4.88	Five year	4.72
Fed.funds at intervention	-	Six month	4.95	10-year	4.89
		One year	4.82	30-year	5.27

INTERNATIONAL BONDS

Sep 14	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Spread v Govts
■ [illegible]								
EIB	01/07	5.750	AAA	109.6100	4.36	[illegible]	-0.27	[illegible]
Spain	01/07	5.750	AA	109.4500	4.36	[illegible]	-0.29	[illegible]
Philip Morris	03/04	5.375	A	104.0000	4.52	[illegible]	-0.51	[illegible]
Finland FRN	09/02	3.629	AA	100.7035	3.14	[illegible]	-0.44	-0.50
■ [illegible]								
Austria	01/04	5.500	AAA	107.7800	3.85	[illegible]	-0.43	[illegible]
Abbey Nat	02/04	6.000	AA	104.7200	3.95	[illegible]	-0.42	[illegible]
Cred Foncier	02/04	9.125	A	123.1200	4.25	[illegible]	-0.36	[illegible]
3CIF FRN	12/01	3.617	AA–	99.8631	3.50	[illegible]	-0.34	-0.12
■ EURO LIRE								
EIB	02/07	7.000	AAA	117.5900	4.39	[illegible]	[illegible]	[illegible]
Abbey Nat	02/02	[illegible]	AA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Walt Disney	09/00	[illegible]	A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB FRN	03/01	[illegible]	AAA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ [illegible]								
EIB	12/07	7.625	AAA	113.3278	5.72	+0.01	-0.34	+0.54
Dresdner Bk	12/07	7.750	AA–	106.5728	6.48	[illegible]	[illegible]	+1.30
British Gas	03/00	7.625	A+	100.8898	5.55	[illegible]	[illegible]	[illegible]
Abbey Nat FRN	02/02	7.900	AA	100.1595	5.58	[illegible]	[illegible]	[illegible]
■ EURO $								
EIB	04/07	7.250	AAA	110.9799	5.68	[illegible]	[illegible]	+0.75
ABN Amro	06/07	7.125	n/a	105.7894	6.25	+0.22	-0.04	+1.40
Quebec	01/07	7.000	A+	105.8211	6.10	+0.22	–	+1.25
Citicorp FRN	02/04	5.750	A+	100.0095	5.75	+0.22	+0.24	+1.00
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	117.8724	5.83	+0.12	-0.18	+0.17
Toronto	05/04	8.500	AA+	112.8303	5.78	+0.12	-0.19	+0.12
Bell Canada	07/99	10.625	A+	103.7773	5.74	+0.13	-0.08	+0.96
Deutsche B FRN	09/02	5.875	AAA	101.5375	5.44	+0.13	-0.46	-0.16
■ EURO YEN								
World Bank	03/02	5.250	AAA	116.6502	0.46	–	-0.34	-0.05
Spain	03/02	5.750	AA	118.4473	0.45	–	-0.32	-0.06
Cred Foncier	08/02	4.750	A	114.5838	0.92	–	-0.34	+0.41
Italy FRN	07/99	0.727	AA	100.2437	0.00	–	-0.13	-0.23

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Sep 14	Day's change %	Fri Sep 11	Accrued interest	xd adj. ytd
1 Up to 5 years (18)	120.40	-0.05	120.46	2.19	7.22
2 5-15 years (19)	169.41	-0.10	169.59	3.00	7.14
3 Over 15 years (5)	218.84	-0.12	219.09	3.33	7.40
4 Irredeemables (4)	288.47	0.20	288.91	4.17	8.53
5 All stocks (46)	161.03	-0.09	161.17	2.78	7.43
Index-linked					
6 Up to 5 years (2)	221.32	-0.05	221.44	2.19	3.13
7 Over 5 years (9)	238.37	-0.19	239.83	1.22	5.06
8 All stocks (11)	235.85	-0.17	236.24	1.38	4.70

Yields	Low coupon Sep 14	Low coupon Sep 11	Low coupon Yr. ago	Medium coupon Sep 14	Medium coupon Sep 11	Medium coupon Yr. ago	High coupon Sep 14	High coupon Sep 11	High coupon Yr. ago
5 yrs	5.46	5.43	6.87	5.53	5.50	6.94	5.49	5.46	6.98
15 yrs	5.04	5.03	6.85	5.16	5.15	6.89	5.23	5.24	6.98
20 yrs	5.02	5.01	6.85	5.15	5.14	6.86	5.23	5.24	6.98
Irred.†	5.23	5.24	6.94						

Index-linked	Inflation 5% Sep 14	Inflation 5% Sep 11	Inflation 5% Yr. ago	Inflation 10% Sep 14	Inflation 10% Sep 11	Inflation 10% Yr. ago
Up to 5 yrs	2.77	2.75	3.60	2.12	2.10	2.85
Over 5 yrs	2.45	2.43	3.50	2.27	2.25	3.28

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Sep 14	Sep 11	Sep 10	Sep 9	Sep 8	Yr ago	High*	Low*
Govt. Secs. (UK)	109.52	109.63	109.73	108.81	108.20	98.02	109.67	93.31
Fixed Interest	149.65	149.58	148.36	148.47	148.07	126.5	149.58	115.32

 * for 1998. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 149.58 (11/09/98), low 50.33 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
Treas 15½pc 1998	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12pc 1998	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 9½pc 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas Flg Rate 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12¼pc 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 10½pc 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 6pc 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 10¼pc 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9pc 2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 13pc 2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8pc 2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas Flg Rate 2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 10pc 2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9½pc 2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9¾pc 2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 7pc 2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12pc 1999-2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 10pc 2002	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 7pc 2002	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9½pc 2002	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 9¾pc 2002	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exch 9pc 2002	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9¾pc 2003	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
Treas 8pc 2003	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 6½pc 2003	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 13¾pc 2000-3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 10pc 2003	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 11½pc 2001-4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 10pc 2004	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● 'Tap' stock. [illegible] calculated by [illegible]

Latin America weighs down dollar

MARKETS REPORT

By Richard Adams

The cigar smoke of doubt surrounding the US dollar cleared slightly yesterday, as the foreign exchange markets chewed over the implications for US policy.

Analysts realised that a possible vacuum in the White House was unlikely to occur in the very near future. Instead, concern was moved to the impact of Brazil on the dollar as a more immediate danger.

The worries were prompted by Ecuador's decision to devalue by a higher than expected amount, and the Group of Seven leading industrial nations meeting in London, addressed by Russian officials.

After the G7 officials meeting, Gordon Brown, the UK chancellor, said a decision will be made in the next two weeks on whether to hold an emergency summit to discuss turmoil in the global economy. That disappointed the markets, which had hoped for a more concrete proposal.

The dollar recovered strongly in the morning, and ended trading hours in Europe against the D-Mark at DM1.703, a rise of just over one pfennig.

The dollar was also stronger against the yen, finishing in Europe at Y133.1, compared with Friday's closing level of Y131.04.

Patricia Elbaz, director at Financial Trends consultancy, said there were two bullish factors helping the dollar against the yen: its sustained move over trend-line support at Y128.1, and regaining its 50-week moving average of Y132.20.

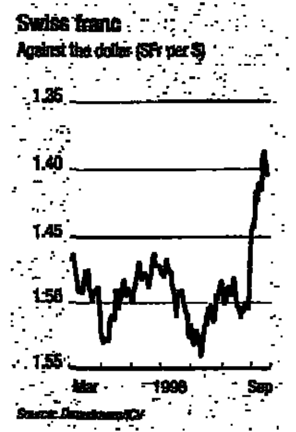
"The psychological level at Y140 is likely to be pivotal for a sustained dollar recovery ahead," Ms Elbaz said.

There was also excitement over reports the Hong Kong Monetary Authority was about to shift its convertibility rate from HK$7.75 to HK$7.80. The report was quickly denied.

■ The Russian rouble seemed to enjoy one of its better days in recent weeks. In fact, there were angry reports of banks squeezing the rouble to artificial levels ahead of the expiry of a number of forward currency contracts today.

The rouble surged to Rbs8.5 to the dollar during electronic trading. The Emerging Market Traders Association estimated the rouble to be just below Rbs9 in morning Moscow trading. But since its de facto devaluation against the dollar, the rouble's value has dipped as low as Rbs23.

Swiss franc
Against the dollar (SFr per $)



The Fitch-IBCA ratings agency calculated that Russian banks have issued something like $40bn to $50bn in forwards this year, with most of them due to expire in the final four months of the year.

With trading volumes in the rouble remaining very low, it is easy for any institution to manipulate the currency. One analyst with a western bank in Moscow said the 'activity' added to the difficulties in operating in Russia.

■ Brazil and the Real continues to be at the front-line. "After disappointing initial policy responses, the Brazilian authorities are in the process of taking more determined measures," Salomon Smith Barney said.

There was still talk in market yesterday of help from the International Monetary Fund. Other policy moves, such as exchange rate controls, are possible.

"While watching Brazil closely, investors should not lose sight of the vulnerabilities in Colombia and Venezuela," Salomons warned.

■ Ecuador's central bank said it was allowing its currency, the sucre, to depreciate against the US dollar by widening the limits of its trading band.

The decision followed an effective devaluation in Colombia two weeks before. Ecuador currently maintains a crawling peg. The currency devalues in line with inflation, but yesterday's move was more dramatic.

The currency's new lower trading limit is 6,740 sucres to the dollar, and the upper trading limit 5,833 sucres. The previous lower limit was 5,171.

The central bank said the country's foreign currency reserves fell $70m last week, to stand at $1.75bn on Friday. The bank said reserves had fallen because of payments on foreign debt and intervention in the foreign exchange market.

■ POUND IN NEW YORK

Sep 14	—Latest—	– Prev. close –
£ spot	1.6790	1.6730
1 mth	1.6765	1.6704
3 mth	1.6714	1.6652
1 yr	1.6516	1.6450

■ OTHER CURRENCIES

Sep 14	£	$
Czech Rp	51.1822 - 51.2536	30.5310 - 30.5590
Hungary	359.462 - 360.890	220.390 - 220.540
Iran	5031.60 - 5029.20	3000.00 - 3000.00
Kuwait	0.5053 - 0.5100	0.3038 - 0.3041
Peru	5.1331 - 5.1406	3.0620 - 3.0650
Poland	6.0065 - 6.0211	3.5830 - 3.5900
Russia	14.2494 - 14.4239	8.5000 - 8.6000
U.A.E.	6.1571 - 6.1604	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Sep 14		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.0636	+0.0867	833 - 043	20.1139	19.8193	20.0297	3.8	19.9048	3.8	19.465	3.1	103.7
Belgium	(BFr)	58.8228	+0.2574	752 - 704	58.9710	58.1730	58.7315	3.9	58.3571	3.8	57.0012	3.3	103.5
Denmark	(DKr)	10.8715	+0.0216	647 - 783	10.8902	10.7426	10.8457	2.8	10.7989	2.7	10.6259	2.3	105.8
Finland	(FM)	8.6944	+0.0405	881 - 006	8.7006	8.6036	8.6674	3.7	8.6123	3.8	8.4098	3.3	82.4
France	(FFr)	9.5746	+0.0369	706 - 785	9.5857	9.4696	9.5436	3.9	9.4832	3.8	9.2604	3.3	107.0
Germany	(DM)	2.8557	+0.0138	542 - 571	2.8591	2.8297	2.8464	3.9	2.8279	3.9	2.7616	3.3	105.3

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.9834	+0.1076	800 - 868	12.0080	11.9198	11.9631	2.0	11.9259	1.9	11.8034	1.5	103.7
Belgium	(BFr)	35.1400	+0.3	200 - 600	35.1700	34.8300	35.0785	2.1	34.9645	2.0	34.565	1.6	103.8
Denmark	(DKr)	6.4835	+0.04	810 - 860	6.5024	6.4596	6.4779	1.0	6.469	0.9	6.4435	0.6	105.7
Finland	(FM)	5.1851	+0.0457	826 - 876	5.1926	5.1567	5.1768	1.9	5.1601	1.9	5.0986	1.6	81.8
France	(FFr)	5.7100	+0.0458	090 - 110	5.7187	5.6812	5.7001	2.1	5.6818	2.0	5.6154	1.7	106.9
Germany	(DM)	1.7031	+0.0153	026 - 035	1.7065	1.6944	1.7001	2.1	1.6944	2.0	1.6746	1.7	105.2

WORLD INTEREST RATES

MONEY RATES

Sep 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3½	3¼	[illegible]	[illegible]	6.00	2.75	–
France	[illegible]	[illegible]	[illegible]	3½	3½	4.60	–	3.30
Germany	[illegible]	3⅝	[illegible]	[illegible]	3½	4.50	2.50	3.30
Ireland	6½	[illegible]	[illegible]	4⅝	[illegible]	–	–	6.19
Italy	[illegible]	5⅝	[illegible]	4⅝	[illegible]	6.50	5.00	5.24
Netherlands	[illegible]	3½	[illegible]	3⅝	[illegible]	–	2.75	3.30
Switzerland	1¼	1½	[illegible]	1⅝	[illegible]	–	1.00	–
US	[illegible]	5½	[illegible]	[illegible]	[illegible]	–	5.00	–
Japan	[illegible]	½	[illegible]	[illegible]	[illegible]	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	[illegible]	5½	[illegible]	5¼	–	–	–
US Dollar CDs	–	5.43	5.38	5.32	5.26	–	–	–
ECU Linked Ds	–	4⅛	[illegible]	[illegible]	[illegible]	–	–	–
SDR Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	4¼ - 4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
94875	0.085			0		
95000	0	1.205	1.520	0.040	0.005	0.020
95125	0			0.165		

Est. vol. total, Calls 350 Puts 1000. Previous day's open int., Calls 188717 Puts 152071

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
92500	0.060	0.480	0.860	0.010	0.040	0.060
92625	0.010			0.085		
92750	0	0.290	0.650	0.200	0.100	0.100
92875	0			0.325		
93000	0	0.150	0.450	0.450	0.210	0.150
93125	0			0.575		

Est. vol. total, Calls 10361 Puts 12014. Previous day's open int., Calls 634109 Puts 630132

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	Heritable & Gen Inv Bk	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	C. Hoare & Co	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	●Hambros Bank	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50		
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

● Members of London Investment Banking Association

Precious metal prices slip as dollar rises

MARKETS REPORT

By Paul Solman

Prices of precious metals slipped in London yesterday as the US dollar strengthened. Gold closed at $290.10 an ounce, compared with Friday's close of $293.25, while palladium dropped by more than $10 to close at $297 an ounce.

James Leahy, at T. Hoare & Co. said the gold market would be watching the dollar especially closely this week in view of the difficulties surrounding US President Bill Clinton.

However, he added: "The price has held at $290 today. which is encouraging. The market isn't promising eternal riches but it is underpinned by fundamentals. There is some investor interest emerging which has been lacking in recent years."

The London Bullion Market Association reported yesterday that its gold clearing activity fell again last month.

A total of 28.6m ounces were transferred in August, the lowest since October 1996, when records began and 27.5m ounces changed hands.

However, the sharpest decline was seen in value terms, which set a new low of $8.1bn, about 24 per cent below August 1997's level. The number of transfers, at 1,073, was also the lowest to date.

The LBMA said the reduced clearing activity in August was "hardly surprising, given that the average [price] fixing of $284.11 was the lowest on record so far".

There was also reduced activity in the silver market. The LBMA said 223.4m ounces were transferred in August, valued at $1.2bn, compared with the previous month's 233.5m ounces worth $1.3bn. At 441, the number of transfers set a new low.

World oil prices rose on London's International Petroleum Exchange as several Middle East oil ministers said they would meet this week.

Officials from Saudi Arabia, Qatar and Kuwait will hold talks tomorrow to discuss additional moves to support prices. Producers have already agreed to cut output by 75m barrels a day this year.

In late trading, the benchmark October contract for Brent crude was $13.34 a barrel, compared with Friday's close of $12.93.

Separately, Aramco, the Saudi oil group, announced cuts of 5 per cent in European contract volumes for October, compared with cuts of 8-9 per cent in August and 18 per cent in September.

Base metals were mixed on the London Metal Exchange. Copper was $1,670 a tonne at the kerb close, down $21 from Friday's level, while aluminium lost $5 to $1,369.

Nickel made some headway in recovering from Friday's falls, rising $60 to $4,120 a tonne.

On the London International Financial Futures Exchange, November coffee closed at $1,610 a tonnes, down $25, while November cocoa ended £9 lower at £1,059 a tonne.

Threat seen to survival of domesticated livestock breeds

The Rome-based FAO fears serious food shortages in countries where famine is a perennial possibility, writes **Gary Mead**

Should we care that there are now fewer than 1,000 Arvana-Kazakh dromedary camels in Kazakhstan, or only 900 Yakut cattle left in Siberia? Does it matter that the indigenous pig of Mozambique is at risk?

The Food and Agriculture Organisation, based in Rome, thinks that not only should we care – we should be alarmed.

The FAO believes the threatened survival of these and numerous other domesticated livestock breeds could create serious food shortages in precisely those countries where famine is a perennial possibility.

According to Dr Keith Hammond, senior officer with the FAO's Animal Genetic Resources Group, about "30 per cent of the world's domestic animal breeds are at risk of extinction," a matter of considerable concern as domestic animals supply about 30 per cent of the world's total human food requirements; some 2bn people depend at least partly on them for their livelihoods.

Most of the threatened breeds are indigenous to developing countries and, ironically, it is international aid organisations – including in the past the FAO – that are partly responsible for the current crisis.

'Thirty per cent of the world's domestic animal breeds are at risk of extinction'

To boost local production of farmed livestock, high-yielding cattle, chickens, pigs and other animals have been systematically introduced to the developing world.

The aim – to increase the supply of food by interbreeding "exotic" stock with local animals – was laudable; the result has often been scarcely less than disastrous, as the second, third and fourth generations of the crossbred livestock have been unable to survive the harsh local conditions that the original "pure" bred animal took in its stride.

The result in many regions is that the genes of the original local stock breeds have become so diluted that the species are in danger of dying out – and with them goes the certainty of there remaining a food source that has been tried and tested over the long term.

Thus, in India the FAO estimates that some 50 per cent of indigenous goats face extinction, and 80 per cent of all Indian poultry is being produced from "exotic", non-indigenous breeds.

China has most of the world's pig breeds; yet these are rapidly being replaced by "exotic" breeds with very different feed requirements and reproduction rates.

A breed is deemed extinct when it is no longer possible to recreate the breed population; extinction is absolute when there are no breeding males or females, nor embryos remaining.

On the whole, countries that have turned from local to imported breeds rarely face the kind of disaster that can wreak havoc. However, a recent example, over which Indonesia has drawn a discreet veil, concerns the collapse of its currency, the rupiah.

For a number of years Indonesian chicken farmers have been importing western breeds and reducing the size of their flocks of local birds; western breeds produce more meat but also depend on expensive, protein-enriched, imported diets.

With the recent collapse of the rupiah, these imported feeds have become prohibitively expensive – and mass slaughtering of the imported breeds of chicken has taken place, as farmers have been unable to sustain them.

The FAO says one of the most serious issues in this area is the lack of internationally recognised and freely available information on the estimated 5,000 domesticated farmed breeds remaining around the world.

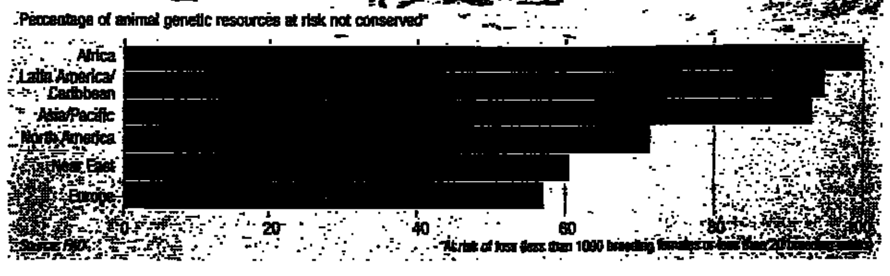
The FAO has established the Domestic Animal Diversity Information System (DAD-IS) to help collect and collate the necessary information concerning the world's genetic pool for farm animal stocks.

DAD-IS, a multi-language system that is available (at no charge) via the internet and CD-Rom, links farmers with scientists and policy-makers, enabling the exchange of views, information and experiences. Users of the system can obtain information on farm breeds, population size, location, production characteristics and other details, such as adaptive qualities.

"The loss of animal breeds means that communities will be less able to respond to change. They will have a reduced capability to breed animals for characteristics such as resistance to disease, and have fewer options to respond to changes in consumer preferences," says the FAO's Dr Hammond.

"However, perhaps the biggest impact of the loss of animal genetic resources and failure to develop other adapted types is that it reduces overall global food security," he adds.

Conservation of domestic animal diversity



NEWS DIGEST

TEA

Kenya heading for record harvest after poor 1997

Kenya has recovered from last year's poor tea harvest and is heading for a record crop this year. The country produced 178m kg of tea in the first seven months of 1998, 59 per cent higher than during the same period last year. However, this year's crop is also ahead of 1996, when Kenya produced 152m kg during the first seven months and a record 257m kg over the whole year.

"Kenya seems to have recovered from the big deficit last year and is on course for a record," said Robin Harrison at Thompson Lloyd & Ewart, the London tea brokers. "The price also seems to have stabilised and it's not as low as expected." Tea is Kenya's biggest commodity export, and 90 per cent of its output is sold abroad, mainly to the UK, Egypt and Pakistan. In contrast, India, the world's largest producer, consumes 80 per cent of its tea domestically.

In July, Kenya produced 17m kg of tea, an increase of 2m kg, or 14 per cent, over the same month in 1997, Africa Tea Brokers reported yesterday. Mr Harrison said the other big tea producers were also expected to produce record crops, although parts of central Africa, such as Malawi, had suffered from unfavourable weather.

Five auction sales were held in Mombasa during July, when a total of 325,679 packages were sold at an average price of $1.70 a kg. That compared with four sales during the same month last year, when 180,621 packages were sold at an average price of $2.20 a kg. Tea packages at auction range from 50kg to 70kg.

Paul Solman and Agencies

COMMODITY INDICES

Australian bank recalculates

The Reserve Bank of Australia is changing the way it calculates its commodity price index to make it more relevant and easier to understand. The index will also be re-based to 1994-95 from the present 1989-90. Crude oil is to be dropped, leaving 17 of Australia's leading commodity exports accounting for about two-thirds of total commodity exports, the central bank said.

The changes will result in a higher weighting for resource commodities as opposed to agricultural goods, so that resource commodities account for 66.8 per cent on the index from 59.2 per cent under the old system. "These changes do not greatly affect the overall trends in the index, although the index is slightly less volatile," the bank said.

Thus the fall in the index from March 1997 to August 1998 was 17.3 per cent under the new method against 20.2 per cent under the old, the bank said. "The changes do not vary the interpretation of movements over the past 12 months," the bank added.

It said the greater weighting to resource exports reflected both a relative decline in the price of rural commodities and sizeable increases in resource commodity export volumes. Among the biggest moves, the share in the index of wheat has fallen by 4.4 per cent, cotton by 4.4 per cent and wool by 4.3 per cent, while gold has risen by 4.2 per cent, aluminium by 2.5 per cent and beef by 2.3 per cent. Reuters, Sydney

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1341-42	1371-72
Previous	1346-47	1371.5-72.5
High/low		1373/1366
AM Official	1341-41.5	1371-72
Kerb close		1368-69
Open int.	299,512	
Total daily turnover	155,463	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1150-55	1371-72
Previous	1163-68	1190-91
High/low		1185/1180
AM Official	1151-52	1180-85
Kerb close		1178-81
Open int.	8,051	
Total daily turnover	2,338	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	510.5-11.5	525.5-26.0
Previous	513-5	529-30
High/low		527/524
AM Official	512.5-3	525-6
Kerb close		526-27
Open int.	37,066	
Total daily turnover	15,935	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4030-40	4105-10
Previous	3995-4005	4060-65
High/low		4130/4055
AM Official	4015-25	4090-95
Kerb close		4120-25
Open int.	63,012	
Total daily turnover	34,750	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5550-60	5400-10
Previous	5570-80	5420-30
High/low		5445/5390
AM Official	5550-55	5410-20
Kerb close		5400-10
Open int.	14,718	
Total daily turnover	8,196	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1010.5-11.5	1035-36
Previous	1013.5-14.5	1036-37
High/low		1039/1035
AM Official	1014-15	1037-37.5
Kerb close		1035-6
Open int.	85,712	
Total daily turnover	29,502	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1648.5-49.5	1672-73
Previous	1673.5-74.5	1695-96
High/low		1699/1669
AM Official	1659-60	1683-84
Kerb close		1670-71
Open int.	175,292	
Total daily turnover	87,399	

■ LME AM Official £/$ rate: 1.6761
LME Closing £/$ rate: 1.6775

Spot: 1.6771 3 mths: 1.6695 6 mths: 1.6619 9 mths: 1.6550

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	76.10	-0.75	76.60	76.00	571	4,896
Oct	75.50	-0.85	76.50	75.30	385	3,120
Nov	75.65	-0.90	76.45	76.30	35	1,838
Dec	75.75	-0.90	77.00	75.40	6,322	30,100
Jan	75.95	-0.90	77.10	77.10	38	2,101
Feb	75.10	-0.85	-	-	11	1,125
Total					7,475	61,353

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	289.70-290.20		
Opening	291.20-291.50		
Morning fix	290.30	173.21	406.275
Afternoon fix	290.20	172.996	407.151
Day's High	291.30-291.60		
Day's Low	289.70-290.00		
Previous close	293.20-293.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.03	6 months	4.00
2 months	4.87	12 months	3.61
3 months	4.73		

Silver Fix	p/troy oz.	US cts equiv.
Spot	296.12	496.00

Silver Lending Rates

1 month	3.50	6 months	1.75
2 months	2.80	12 months	1.50
3 months	2.50		

Gold Coins	$ price	£ equiv.
Krugerrand	292-296	174-177
New Sovereign	68-72	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	290.6	-3.3	-	-	-	-
Oct	291.0	-3.4	293.6	289.6	2,262	12,606
Dec	293.4	-3.4	296.3	292.1	81,301	83,821
Feb	295.1	-3.4	296.4	294.3	198	15,692
Apr	296.8	-3.4	297.5	296.7	91	11,839
Jun	298.5	-3.3	300.0	297.6	367	15,669
Total					85,095	180,607

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	367.4	+1.1	369.0	362.5	100	10,149
Jan	368.9	+0.8	369.0	364.0	285	1,429
Apr	369.9	+0.8	368.5	368.5	4	41
Jul	370.9	+0.8	375.0	375.0	-	18
Total					1,688	11,737

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	300.50	-3.65	-	-	4	85
Dec	296.50	-3.65	297.00	292.00	666	2,713
Mar	294.00	-3.65	-	-	3	328
Total					670	3,126

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	491.0	-6.3	498.5	492.5	28	104
Dec	496.0	-6.5	503.0	494.0	17,677	53,879
Jan	497.9	-6.5	509.0	509.0	1	40
Mar	499.6	-6.5	504.5	499.0	295	9,097
May	501.5	-6.5	505.0	505.0	139	1,695
Jul	503.3	-6.5	510.0	504.5	2	2,574
Total					18,180	73,485

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	14.49	+0.15	14.68	14.34	88,976	78,909
Nov	14.70	+0.14	14.85	14.59	29,292	67,528
Dec	14.87	+0.09	15.03	14.79	17,150	79,855
Jan	15.09	+0.09	15.22	15.09	8,202	42,262
Feb	15.32	+0.12	15.44	15.30	3,173	19,518
Mar	15.54	+0.18	15.54	15.46	339	17,845
Total					137,378	489,791

■ CRUDE OIL IPE ($/barrel)

	6pm price	Day's change	High	Low	Vol	Open int
Oct	13.15	+0.22	13.24	12.95	23,742	44,352
Nov	13.42	+0.19	13.51	13.22	27,048	58,083
Dec	13.70	+0.16	13.77	13.54	4,812	45,155
Jan	13.85	+0.17	13.91	13.74	946	36,334
Feb	13.97	+0.14	13.97	13.90	127	12,458
Mar	14.20	-	14.53	14.20	296	12,234
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	40.80	+0.24	41.20	40.40	24,681	37,323
Nov	41.65	+0.10	42.05	41.40	10,984	27,804
Dec	42.75	+0.20	43.05	42.45	7,397	24,661
Jan	43.70	+0.20	44.10	43.50	4,147	24,737
Feb	44.45	+0.30	44.60	44.20	2,128	17,680
Mar	44.65	+0.40	44.70	44.15	845	16,098
Total					53,051	184,572

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	123.25	-1.75	124.50	122.75	7,639	34,115
Nov	126.00	-1.75	127.00	125.50	3,452	20,037
Dec	128.50	-1.75	129.50	128.00	2,721	40,377
Jan	131.25	-1.25	132.00	130.75	460	16,396
Feb	133.25	-1.25	133.25	133.25	110	12,738
Mar	134.75	-1.25	135.50	134.75	109	7,729
Total					16,000	162,400

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	12.540	+0.100	12.590	12.450	340	4,145
Nov	13.990	+0.050	14.020	13.930	575	2,305
Total					1,290	26,245

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	1.930	+0.052	1.940	1.835	27,241	56,718
Nov	2.210	+0.049	2.210	2.100	12,273	33,424
Dec	2.350	-0.038	2.450	2.355	4,773	34,370
Jan	2.520	+0.045	2.520	2.450	2,766	31,751
Feb	2.420	+0.030	2.420	2.360	1,705	19,988
Mar	2.300	+0.022	2.300	2.250	2,029	18,089
Total					53,889	285,055

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	43.60	+1.08	43.80	42.40	20,432	35,379
Nov	43.65	+0.52	44.00	42.95	8,425	20,744
Dec	44.25	+0.38	44.50	43.75	4,434	10,172
Jan	44.90	+0.23	45.10	44.80	938	4,042
Feb	46.00	+0.48	46.00	46.00	212	2,010
Mar	46.38	+0.01	46.75	46.75	180	2,067
Total					36,681	88,130

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	71.75	-1.45	73.50	73.50	-	109
Nov	73.70	-0.55	73.75	73.50	83	2,742
Jan	75.60	-0.65	75.75	75.50	159	2,354
Mar	77.60	-0.15	77.50	77.50	10	1,544
May	78.90	-0.45	79.00	78.75	33	1,259
Total					275	8,075

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	248.50	+5.00	249.00	243.00	1,339	1,362
Dec	263.00	+4.75	263.25	257.25	12,502	79,499
Mar	278.50	+4.50	279.00	272.75	2,440	25,157
May	287.50	+3.50	288.00	283.50	222	4,679
Jul	298.50	+4.25	299.00	293.25	884	11,793
Sep	305.00	+3.00	306.00	301.00	12	380
Total					17,422	123,139

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	196.75	+1.00	197.00	193.50	2,142	4,377
Dec	208.00	+0.25	208.75	205.25	53,729	182,186
Mar	220.75	+0.25	221.25	218.00	9,350	62,159
May	228.00	+0.25	228.25	225.25	2,347	22,747
Jul	234.25	+0.50	234.50	231.25	3,506	30,664
Sep	240.25	-	240.75	238.25	611	5,298
Total					73,683	320,762

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	71.50	-0.25	-	-	-	-
Nov	72.50	-0.25	72.50	72.40	31	940
Jan	74.65	-0.25	74.50	74.50	15	421
Mar	76.25	-0.25	-	-	-	60
May	77.25	-0.25	-	-	-	23
Total					46	1,444

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	529.75	+2.75	533.50	523.00	1,650	2,430
Nov	531.25	+2.25	535.00	524.25	52,691	91,050
Jan	541.00	+1.75	544.50	534.00	4,709	24,065
Mar	551.75	+2.00	555.00	543.00	2,248	17,393
May	561.00	+2.25	563.50	555.50	1,242	7,544
Jul	570.25	+1.25	574.00	564.00	1,895	9,885
Total					64,806	156,391

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	25.20	+0.04	25.36	24.93	2,677	1,821
Oct	25.25	+0.04	25.45	24.95	9,274	25,452
Dec	25.58	+0.09	25.75	25.22	28,319	47,294
Jan	25.64	+0.09	25.80	25.28	1,340	9,433
Mar	25.68	+0.09	25.77	25.29	2,223	14,119
May	25.68	+0.13	25.80	25.38	1,309	6,280
Total					46,285	113,446

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	131.5	-0.2	132.0	130.0	2,357	4,269
Oct	130.4	-0.2	130.6	128.5	10,186	24,143
Dec	132.8	-	133.8	130.8	15,294	66,443
Jan	134.6	-0.8	135.5	133.2	3,179	14,780
Mar	138.6	-0.8	139.5	137.0	2,597	13,068
May	142.0	-0.8	142.3	141.0	1,357	6,940
Total					36,684	139,706

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	-	-	-	-	3
Mar	123.0	-6.5	-	-	-	-
Apr	163.0	+8.0	163.0	158.0	155	2,214
May	173.0	+8.0	-	-	6,500	29
Jun	183.0	+8.0	-	-	-	-
Total					155	2,214

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	885	+10	885	880	11	150
Oct	970	+2	970	965	110	548
Jan	995	-10	1005	995	22	391
Apr	1025	-	995	995	-	201
Jul	910	-	-	-	-	200
Total					146	1,745

	Close	Prev
BFI	869	856

PULP AND PAPER

■ PULPEX OMLX (US$: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	434.50	+4.50	434.50	429.00	31	348
Mar	462.50	+4.00	462.50	459.00	54	84
Total					105	646

FUTURES DATA
All futures data supplied by CMS.

Spices from Man Producten
Prices in US$ per tonne. Week of low activity in the pepper market. Most industry buyers remain cautious about committing themselves for distant shipment/delivery positions. Though several origins (Vietnam, Sarawak, Brazil) have little or nothing to offer, prices of black pepper tended weaker. Spot positions remain tight and are quoted at premium prices. Black FAQ is offered on the spot at about $5,000 and white FAQ at about $6,500. Even new crop Indian black pepper at $4,200 CF met little buying interest.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1026	+8	1021	1015	30	56
Dec	1059	+9	1059	1048	3,343	66,238
Mar	1088	+10	1089	1078	465	40,508
May	1106	+11	1103	1096	189	14,906
Jul	1124	+11	1139	1118	244	9,296
Sep	1142	+10	1137	1137	14	27,372
Total					4,015	169,838

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1558	+8	1570	1550	601	199
Dec	1584	-2	1597	1573	7,516	35,110
Mar	1626	-1	1635	1616	1,500	18,896
May	1652	-1	1663	1655	107	6,032
Jul	1679	-1	1688	1673	44	1,810
Sep	1705	-1	1708	1708	10	1,661
Total					9,998	70,737

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Sep 10		
Daily	1242.86	1278.87

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1664	-19	1670	1655	165	2,035
Nov	1611	-24	1619	1600	2,906	21,643
Jan	1561	-28	1579	1557	993	5,820
Mar	1533	-26	1549	1532	154	2,608
May	1516	-26	1534	1518	50	526
Jul	1506	-26	1528	1514	21	185
Total					4,289	32,817

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	107.00	-3.95	111.75	107.00	447	392
Dec	101.70	-2.80	105.25	101.35	10,128	16,041
Mar	101.50	-1.90	104.25	101.00	2,467	6,803
May	102.50	-1.60	104.75	102.25	557	3,134
Jul	103.65	-1.35	105.50	103.50	435	1,389
Sep	105.15	-2.35	107.50	105.00	273	1,487
Total					14,406	29,561

■ COFFEE (ICO) (US cents/pound)

Sep 10		Prev. day
Comp. daily	95.43	98.59
15 day average	99.37	99.48

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	213.5	-2.2	220.0	213.0	5,797	8,537
Dec	218.3	-3.5	223.8	218.0	2,759	14,412
Mar	224.3	-2.9	228.7	224.1	980	14,405
May	229.1	-3.0	233.5	232.7	568	2,840
Aug	235.3	-3.2	240.0	239.5	217	1,475
Oct	238.6	-0.7	242.0	241.2	201	1,156
Total					10,389	42,763

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	7.03	-0.07	7.24	7.02	14,751	61,303
Mar	7.65	-0.04	7.82	7.62	10,858	62,581
May	7.83	-0.04	7.97	7.80	1,182	9,565
Jul	7.94	-0.04	8.08	7.95	289	7,079
Oct	8.24	-0.05	8.33	8.27	450	9,003
Total					27,555	157,205

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	73.68	+0.58	73.85	72.70	567	3,262
Dec	74.85	+0.91	75.05	73.62	7,206	35,365
Mar	74.36	+1.14	74.45	73.10	2,040	19,417
May	74.30	+1.23	74.30	73.07	429	10,120
Jul	74.73	+1.12	74.75	74.30	132	6,196
Total						

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	109.55	-0.65	112.00	109.00	4,276	15,222
Jan	112.75	-0.45	114.90	112.00	2,134	6,291
Mar	115.50	-0.75	117.75	115.00	721	2,685
May	118.25	-0.75	118.75	117.75	15	729
Jul	121.00	-0.75	-	-	5	352
Sep	122.00	-0.75	-	-	-	36
Total						

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Sep 14	Sep 11	month ago	year ago
1477.7	1483.3	1526.8	1907.4

■ CRB Futures (Base: 1967 = 100)

Sep 11	Sep 10	month ago	year ago
201.50	202.59	-	-

■ GSCI Spot (Base: 1970 = 100)

Sep 11	Sep 10	month ago	year ago
146.43	147.10	139.88	196.08

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+3,300	to	474,100
Aluminium alloy	+400	to	76,720
Copper	+250	to	362,725
Lead	+1,850	to	112,825
Nickel	-186	to	58,512
Zinc	-1,100	to	364,850
Tin	-50	to	7,905

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	61.275	-0.050	62.750	61.200	8,122	34,685
Dec	63.650	-0.100	64.650	63.350	7,071	28,761
Feb	63.600	-0.225	64.500	63.475	3,182	15,138
Apr	64.750	+0.025	65.250	64.500	1,409	7,479
Jun	62.450	+0.075	62.850	62.350	1,160	5,057
Aug	62.250	+0.200	62.700	62.150	66	1,000
Total					21,011	92,141

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	39.425	+0.600	39.800	38.250	4,030	13,722
Dec	39.525	+0.550	39.800	38.550	3,099	12,275
Feb	44.175	+0.425	44.750	43.450	1,055	5,122
Apr	46.300	+0.325	47.050	46.000	268	1,697
Jun	55.350	+0.525	55.650	54.550	119	866
Jul	56.025	+0.275	56.400	55.550	44	468
Total					8,645	34,451

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	44.600	-0.925	45.450	43.700	968	2,751
Mar	44.600	-1.800	45.750	44.100	32	128
May	46.250	-2.050	47.500	46.000	4	14
Total					1,003	2,904

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1350	34	73	24	37
1400	13	48	53	61
1450	4	30	93	92
■ COPPER (Grade A) LME	Oct	Jan	Oct	Jan
1600	85	135	13	43
1700	35	80	53	87
1800	8	43	126	148
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1600	31	51	1	40
1650	1	30	21	69
1700	1	17	70	106
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1025	25	53	1	19
1050	4	39	4	30
1075	1	27	25	43
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1250	-	-	19	-
1300	-	-	38	48
1350	54	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.53-2.64r	-0.050
Brent Blend (dated)	$12.61-2.65	-0.075
Brent Blend (Oct)	$13.06-3.10	-0.175
W.T.I.	$14.47-4.49x	-0.110

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$148-151	-2.5
Gas Oil	$124-126	-1.5
Heavy Fuel Oil	$60-61	
Naphtha	$117-120	-6
Jet fuel	$139-140	-2
Diesel	$135-138	+1

■ NATURAL GAS (Pence/therm)

Bacton (Oct)	12.50-12.55	+0.08

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

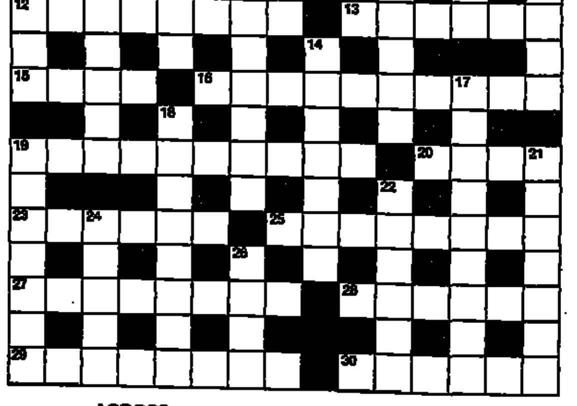
Gold (per troy oz)‡	$289.95	-3.50
Silver (per troy oz)‡	496.50c	-8.75
Platinum (per troy oz.)	$362.00	-7.00
Palladium (per troy oz.)	$291.00	+3.00
Copper	84.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.23r	
Tin (New York)	260.5	
Cattle (live weight)	79.23p	-2.60*
Sheep (live weight)	77.75p	-9.72*
Pigs (live weight)†	33.53p	-4.54*
Lon. day sugar (raw)	$179.80	+7.70
Lon. day sugar (wte)	$223.00	+8.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Oct)♥	47.00p	
Rubber (Nov)♥	47.50p	
Rubber (KL RSS No1)	257.00m	
Coconut Oil (Phil)§	$47.5y	+2.5
Palm Oil (Malay.)§	665.0	-10.0
Copra (Phil)§	$415.0y	
Soyabeans (US)	150.0y	
Cotton Outlook'A' index	65.95	
Wooltops (64s Super)	300p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Aug/Sep. x Sep. ♥London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 805 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,787 Set by DANTE



ACROSS
1 Conclude contract (6)
4 Their acts are well-known (8)
9 Employees used to keep up standards (6)
10 One who's left without credit (8)
12 Anxious when visiting America? (2,1,5)
13 Short notice (6)
15 Her daughter went to Paris (4)
16 Presentation for joint service? (5-5)
19 Offer sprawling lion some meat (10)
21 Toiletry obtained from hospital chemist (4)
23 I'm more upset by a personal account (6)
35 Capital investment supports the family (8)
27 Contact him if the motor starts to hesitate (8)
28 I'm taking a certain attitude for tax (6)
29 Precise bill put before a junior minister (8)
30 An alto composition lacking an established key (6)

DOWN
1 Talk to William about the fuel account (3,4)
2 Place of refreshment for Great Dane when off the leash (3,6)
3 Spent two notes at the charity "do" (6)
5 Aristocrat always preceded by a page (4)
6 Decline to make way for a successor? (4,4)
7 Being agile, he put the light on first (5)
8 Cancel score (7)
11 Maybe Lister had a point making things so (7)
14 Aimed for highest church post in the Christian era (7)
17 Find path from the summit (5,4)
18 Inventor resigned in a tantrum (8)
19 Modify a painting technique (7)
21 Business needs a new angle in the freeze (7)
22 Line call (6)
24 The art of spelling (5)
26 Suitable pay (4)

Solution to Saturday's prize puzzle on Saturday September 26.
Solution to yesterday's prize puzzle on Monday September 28.

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FT MANAGED FUNDS SERVICE

Offshore Funds

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

BT Fund Managers (Ireland) Ltd (x)

[illegible]

Lazard Investment Funds Ltd

[illegible]

Baring International Fd Mgrs (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

John Hancock Funds Plc

[illegible]

Super Phoenix Fund II

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	484	+19	646	414	2,844	5.1	11.8
Bulmer (HP)		335xd	—	495½	295	-	5.5	14.4
Burn Stewart	‡	11	—	53½	8½	2	19.3	-
Diageo		684	+44	788	432	8,672	3.8	25.9
Glenmorangie A		830	—	879½	755	-	2.1	19.3
B		925	—	1080	890	-	1.0	43.1
Highland	†	232	—	325	225	2	4.8	10.7
5¼pc Cv Sb Bd		93½	-½	99½	85½	-	6.3	-
Kirin Y		486½	-10½	598	416¾	-	1.1	-
Matthew Clark	♣	136xd	—	288	134	23	12.1	4.6
Merrydown		35½	—	74½	35½	-	-	Φ
Seagram C$		£19¾	+1¾	£28½	£18½	-	1.3	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Notes	Price	+ or –	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue							
Aberdeen Emrg Asia	[illegible]	[illegible]	[illegible]	[illegible]	–	21.8	38.9
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Atlantis Japan Gwth Fd	[illegible]	[illegible]	[illegible]	[illegible]	–	245.2	21.8
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Baring Emrg Euro	[illegible]	[illegible]	[illegible]	[illegible]	–	89.8	35.9
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Brazilian IT	[illegible]	[illegible]	[illegible]	[illegible]	4.1	34.1	49.2
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Central Euro Gwth	[illegible]	[illegible]	77	[illegible]	–	46.1	28.2
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
East German	[illegible]	[illegible]	17	7	–	22.9	67.2
Egypt Trust $	[illegible]	[illegible]	1165	[illegible]	1.4	–	–
1st Russian Frontiers $	315	+10	[illegible]	295	–	530.2	40.6
Warrants	[illegible]	[illegible]	[illegible]	35	–	–	–
Warrants II	[illegible]	+5	[illegible]	40	–	–	–
Five Arrows Chile $	[illegible]	[illegible]	[illegible]	[illegible]	2.7	104.1	34.1
Warrants	1	[illegible]	22	[illegible]	–	–	–
Govett Asian Smlr	[illegible]	[illegible]	179	31	2.1	72.3	55.0
Warrants	[illegible]	[illegible]	34	[illegible]	–	–	–
Gartmore Smlr Asia Co.	[illegible]	[illegible]	[illegible]	[illegible]	1.3	30.9	46.9
Warrants	[illegible]	[illegible]	[illegible]	15	–	–	–
Indonesia Fund	[illegible]	[illegible]	[illegible]	120	–	–	–
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Israel Fund $	[illegible]	[illegible]	[illegible]	[illegible]	–	59.1	14.2
Warrants $	[illegible]	[illegible]	18	[illegible]	–	–	–
Korea-Europe $	[illegible]	[illegible]	[illegible]	65	1.2	148.6	30.8
Korea Liberal $	[illegible]	[illegible]	[illegible]	[illegible]	–	95.8	–15.2
Warrants	[illegible]	[illegible]	30	5	–	–	–
Latin American $	[illegible]	[illegible]	[illegible]	46	–	68.2	32.2
Warrants	[illegible]	[illegible]	[illegible]	17	–	–	–
Lazard Birla India	25	[illegible]	[illegible]	[illegible]	–	–	–
Warrants	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Schroder Korea Fd $	168	[illegible]	[illegible]	[illegible]	–	–	–
Warrants $	[illegible]	[illegible]	30	[illegible]	–	–	–
Scottish Asian Pfd	[illegible]	[illegible]	[illegible]	77	–	[illegible]	[illegible]

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

FT Free Annual Reports Club

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LONDON STOCK EXCHANGE

Takeovers and Wall Street rally boost equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Another burst of real and rumoured takeover and merger activity helped London's recently battered equity market move well clear of 5,000 points on the FTSE 100 yesterday.

The index briefly dipped below that psychologically important level last Friday, before stabilising and staging a powerful rally.

The latest surge of corporate activity gave a much-needed fillip to a market poised to rally further after Wall Street's recovery on Friday.

That saw the Dow Jones Industrial Average rally from an uncomfortable opening to end up almost 180 points, as some of the tension ahead of publication of the Starr report began to wane.

And with Wall Street delivering another scintillating performance at the start of trading in the US yesterday, London recouped much of the ground lost at the end of last week. The Dow posted a 200-points-plus gain shortly after London closed.

At the end of the London session, the FTSE 100 was 150.0 higher at a session high of 5,268.6. The FTSE 250 rose 39.4 to 4,736.7, spurred on by takeover action in oils and textiles, while the FTSE SmallCap nudged up 6.0 to 2,094.0.

There was good news on the domestic economic front, with producer price data for August showing output prices down 0.2 per cent and input prices down 0.9 per cent. These numbers were seen as an indicator that there is scope for a cut in UK interest rates.

That better feeling about domestic rates was slightly dented by comments by John Vickers, a member of the Bank of England's monetary policy committee and the Bank's chief economist.

Mr Vickers told a conference in Frankfurt that domestically generated inflation would have to come down if the Bank was to meet its target on price stability.

Marketmakers said there had been a gradual return of confidence to the market during the day, with President Clinton's resilience at the weekend seen as giving substance to Wall St and the rest of global markets.

"There is a feeling that we might have seen the very worst of the problems, but you would have to be very brave to plunge headlong into the market at this stage," said one dealer. But he did say that a sudden spate of bids in the front-line stocks would put a different complexion on the market.

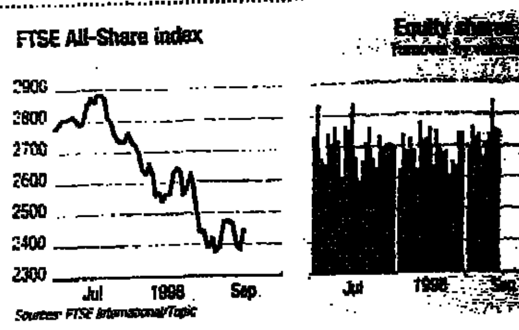
The insurance arena was alive with takeover stories concerning Legal & General and Norwich Union.

The actual and rumoured corporate activity came mainly in three specific areas: football clubs, second-line oils and textiles. There was confirmation too of talks that could lead to a merger of the armoured car divisions of Alvis and GKN.

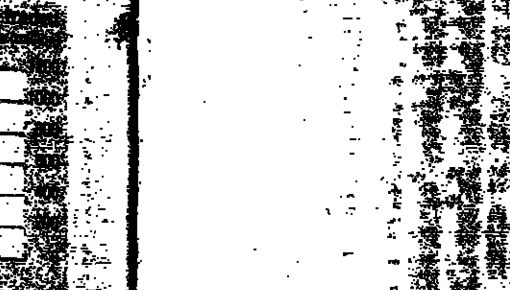
British Borneo's bid for Hardy Oil & Gas unleashed a surge of support for other oil exploration stocks, spearheaded by Lasmo and Enterprise Oil, both recently relegated from the FTSE 100. Specialists noted both stocks had outpaced the market since relegation, reflecting hopes that opportunistic bids might appear.

Turnover in equities was a highly respectable 921.6m shares.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	5268.6	+150.0
FTSE 250	4736.7	+39.4
FTSE 350	2518.1	+82.7
FTSE All-Share	2441.56	+57.93
FTSE All-Share yield	3.22	3.28
FT 30	3271.2	[illegible]
FTSE Non-Fins p/e	[illegible]	[illegible]
FTSE 100 Fut Sep	[illegible]	[illegible]
10 yr Gilt yield	[illegible]	[illegible]
Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors

1 Alcoholic Beverages	+7.0
2 Extractive Industries	+5.3
3 Life Assurance	+5.1
4 Household Goods & Text	+4.9
5 Oil Exploration	+4.7

Worst performing sectors

1 Engineering, Vehicles	[illegible]
2 Paper, Pckg & Printing	[illegible]
3 Tobacco	[illegible]
4 Chemicals	[illegible]
5 Other Financial	[illegible]

Borneo bids for Hardy

COMPANIES REPORT

By Joel Kibazo and Martin Brice

The pace of restructuring in the oil sector moved up a gear when British Borneo Petroleum announced the takeover of fellow explorer Hardy Oil & Gas.

British Borneo denied its takeover had been driven by the low oil price and said it was a strategic move. However, concerns that British Borneo may have overpaid cast a shadow over the shares and they fell 32 to 209½p, while those of Hardy rose 15 to 180½p.

A leading specialist on the oil sector said the deal was a perfect fit that enabled the redeployment of Borneo's near-term cash flow into longer-term projects such as Hardy's Australian interests.

However, he said it was worth mentioning that the last agreed merger in the UK exploration and production sector was in the mid 1980s when Charterhouse Petroleum agreed a takeover of Saxon Oil. That merger was scuppered by a wave of counter-bids such as Clyde's bid for Saxon which was then trumped by Enterprise Oil. "History could be repeated and both stocks might attract counters," said the analyst.

Dealers said yesterday's move could open the way for more bids in the sector and several suggested Lasmo, which has just fallen out of the FTSE 100, was "looking juicy" with Enterprise also a possible target. The former closed 10 ahead at 168p, while Enterprise jumped 30 to 369p.

Bid fever continued to sweep through the football sector driving shares sharply ahead. The prospect of a rival bid for Manchester United, which has already agreed to a takeover from BSkyB, continued to excite the market, although no immediate news of the "mystery bidder" linked to Salomon Smith Barney was expected. The shares hardened another 6¼ to 228p.

Much of the attention was focused on Sheffield United after it revealed it was in talks with potential investors who may be interested in acquiring a substantial stake in the group and making cash available to the club. The shares were the best performers in the market yesterday after they rose 13 or nearly 62 per cent to 43p.

Tottenham Hotspur, whose chairman Alan Sugar revealed he had rejected a proposal from Enic that would have led to an 80p-a-share offer for the football club, was also wanted. The shares put on 13 to 85p. Enic shares improved 5 to 150p.

Other football stocks in demand included Leicester City 7½ up at 44½p, Newcastle United 18 better at 107p, while Aston Villa ended the day 45 ahead at 725p.

The strong results from Hays made it one of the best performers in the Footsie, with the company's bullish trading statement prompting talk of a rerating.

One analyst described the results as "a stonkingly good performance", as the company had increased both earnings per share and the pre-tax line by 30 per cent, while like-for-like sales had risen by 22 per cent.

But the catalyst for hopes of a rerating of the shares came from the company saying it was seeing no signs of a slowdown in the UK economy.

Fears that its personnel side would be hit severely in any UK recession have weighed heavily on the shares since they hit £11.32 earlier this year. Yesterday they closed up 67 at 882p, where they stood at about 22 times forecast earnings for this year.

Geoff Allum at Henderson Crosthwaite increased his forecasts for this year from £227m to £231m, and said: "There is a good chance there will be a rerating of these shares, because they are not far above a market rating and this is too low for a company that has grown at around 20 per cent a year for the past few years."

Courtaulds talks

Confirmation from Courtaulds Textiles that it was in talks with Claremont Garments prompted hopes of consolidation in the textiles sector, which has underperformed the market by about 70 per cent during the past five years.

While Courtaulds was off 3 at 162p, the rise of 6 in Claremont took the shares to 22½p, a premium to the 22p-a-share price seen in weekend press speculation.

Positive sentiment on consolidation spread to Coats Viyella, which achieved the best performance in the FTSE 250 as the stock gained 5½ to 38½p.

Volvo said it had 9.7 per cent of shares in vehicle body maker Henlys, bringing it very close to the 10 per cent stake it planned to own. The fall of a penny to 454p in Henlys shares left its cash-and-paper offer for chassis maker Dennis worth 468p, a premium of about 4 per cent to the rival 450p-a-share cash offer from Mayflower.

Mayflower shares were up 4½ at 166p as 1.1m were traded, helped by a "buy" note from BT Alex Brown. Mark Little at the broker said: "We believe that Mayflower is a good buyer of assets and those investors who are still penalising it for its audacious, yet failed, bid for Vickers are being unduly harsh. The purchase of Dennis would be entirely consistent with its stated strategy and would provide a significant growth driver for the bus division of Mayflower."

Media group Pearson, which owns the Financial Times, continued to perform well as a broker published a bullish note on the stock. The shares gained 40 to £10.90.

BT Alex Brown yesterday upgraded its recommendation to "strong buy" and set a demanding £12.20 near-term price target, implying 20 per cent upside.

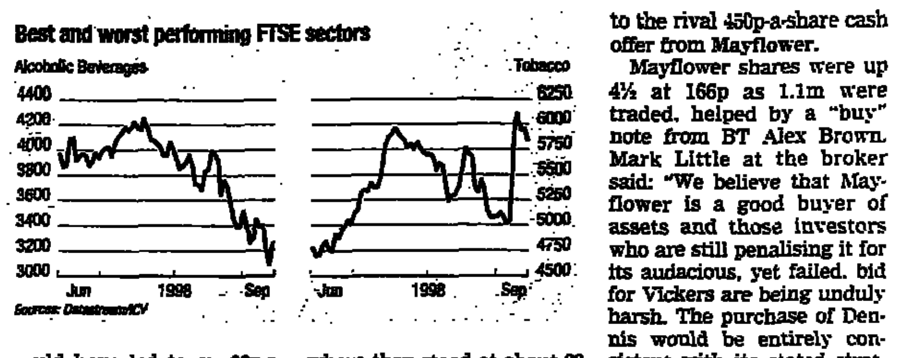
In a note to investors, the team at BT Alex Brown said: "Having long been regarded as an asset play, Pearson will, we expect, become more respected as a quality, growth company. In uncertain economic times this earnings growth potential will undoubtedly attract continuing expansion in the stock's rating."

In the rest of the sector, Reuters gained 42 to 479p after SBC Warburg Dillon Read was reported to have reiterated its "buy" stance after recent share price underperformance.

ICI missed the party as the stock fell sharply despite a strong rise in the Footsie. A profits downgrade from Merrill Lynch was said to have done the damage.

Chemicals industry analyst Robyn Coombs at the broker cut forecasts for this year by 11 per cent to £320m, and by 27 per cent for next year to £320m.

Best and worst performing FTSE sectors



FT 30 INDEX

	Sep 14	Sep 11	Sep 10	Sep 9	Sep 8	Yr ago	*High	*Low
FT 30	3271.2	3187.3	3217.9	3334.6	3380.6	3172.3	3884.0	3187.3
Ord. div. yield	3.27	3.35	3.32	3.20	3.19	3.56	4.22	2.72
P/E ratio net	22.51	20.01	20.20	20.92	21.04	20.66	25.41	15.80
P/E ratio nil	20.43	19.93	20.12	20.83	20.95	20.38	25.18	15.71

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3187.3	3246.5	3227.1	3253.0	3245.9	3249.1	3250.7	3254.1	3272.9	3187.3

STOCK MARKET TRADING DATA

	Sep 14	Sep 11	Sep 10	Sep 9	Sep 8	Yr ago
SEAQ bargains	62,389	65,768	58,009	53,280	62,357	38,818
Equity turnover (£m)†	-	3742.1	2777.5	2674.2	2772.5	2052.1
Equity bargains†	-	48,159	41,482	42,580	41,178	35,143
Shares traded (mil)†	-	1091.5	822.4	751.0	846.4	647.9
Total market bargains‡	-	65,568	60,340	55,103	58,429	-
Total turnover (£m)‡	-	4845.2	4051.5	3614.8	3731.1	-
Total stks traded (mil)‡	921.6	1485.9	1186.1	978.2	1061.1	-
Tradepoint turnover (£m)	31.1	48.5	35.2	32.3	20.3	15.6
Tradepoint stks traded (mil)	11.5	12.2	10.2	10.4	7.8	2.6

†Excluding intra-market and overseas turnover but including Crest turnover. ‡UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,052	Total Highs	18	Total contracts	29,090
Total Falls	438	Total Lows	146	Calls	11,679
Same	1,473			Puts	17,411

Sep 14 *Data based on Equity shares listed on the London Share Service.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 15.09.98 / Final Prices for Trading on 16.09.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.24	12.84	13.32	1.03
0100	11.24	10.65	11.13	1.03
0130	14.24	12.53	13.00	1.03
0200	14.24	12.53	13.00	1.03
0230	14.24	12.53	13.00	1.03
0300	11.24	12.53	13.00	1.03
0330	14.11	12.53	13.00	1.03
0400	14.11	10.65	11.13	1.03
0430	8.42	10.65	11.13	1.03
0500	8.42	10.65	11.13	1.03
0530	11.36	7.33	7.80	1.03
0600	9.42	7.33	7.80	1.03
0630	14.83	7.33	7.80	1.03
0700	14.46	12.71	13.19	1.03
0730	14.65	10.23	10.70	1.03
0800	17.30	12.71	13.19	1.03
0830	28.55	14.32	14.80	1.03
0900–2400	[illegible]	[illegible]	[illegible]	[illegible]

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5200.0	5266.0	+143.0	5292.0	5185.0	67355	[illegible]
Dec	5274.0	5340.0	+145.5	5362.5	5260.0	39816	[illegible]
Mar		5387.0	+147.0			0	1941

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4715.0	4760.0	+40.0	4722.0	4715.0	218	783
Dec	4775.0	4800.0	+40.0	4782.0	4775.0	218	[illegible]

FTSE 100 INDEX OPTION (LIFFE) (*5249) £10 per full index point — [illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — [illegible]

LONDON RECENT ISSUES: EQUITIES — [illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS — [illegible]

FTSE GOLD MINES INDEX

	Sep 11	% chg since 31/12/97	Mid Cap	Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (27)	899.71	-3.5	30.95	100.00	1.97	-	1536.45	701.53
Africa (9)	1135.43	+2.5	9.17	29.63	4.22	45.07	1525.29	765.63
Australasia (7)	1064.79	-7.9	2.77	8.98	3.04	7.24	1609.85	815.93
Americas (11)	943.86	-8.4	19.01	61.42	0.72	56.03	1574.16	847.69

 Figures in brackets show number of companies. Basis US Dollars. Base Values 1000.00 31/12/92. † Partial.

FTSE Actuaries Share Indices — Produced in conjunction with the Faculty and Institute of Actuaries — The UK Series

	Sep 14	Day's chge%	Sep 11	Sep 10	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5268.6	+2.9	5118.6	5136.6	4902.9	3.13	2.66	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	4736.7	+0.8	4697.3	4751.8	4636.9	3.42	2.90	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex Inv Tr	4793.8	+0.7	4758.2	4813.0	4849.8	3.51	2.98	[illegible]	[illegible]	[illegible]	[illegible]
Remaining UK series and industry sector rows	[illegible]										

Hourly movements — [illegible]

TRADING VOLUME — Major Stocks yesterday — [illegible]

FTSE INTERNATIONAL

صكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 14 / Sch)

BELGIUM/LUXEMBOURG (Sep 14 / Frs.)

CZECH REP (Sep 14 / Korunas)

DENMARK (Sep 14 / Kr)

FINLAND (Sep 14 / Mkk)

FRANCE (Sep 14 / Frs.)

GERMANY (Sep 14 / Dm.)

GREECE (Sep 14 / Drachma)

ITALY (Sep 14 / Lira)

NETHERLANDS (Sep 14 / Fls.)

NORWAY (Sep 14 / Kroner)

POLAND (Sep 14 / Zloty)

PORTUGAL (Sep 14 / Escudo)

SPAIN (Sep 14 / Pts.)

SWEDEN (Sep 14 / Kronor)

SWITZERLAND (Sep 14 / Frs.)

TURKEY (Sep 14 / TL Lira)

PACIFIC

JAPAN (Sep 14 / Yen)

HONG KONG (Sep 14 / H.K.$)

INDONESIA (Sep 14 / Rupiah)

MALAYSIA (Sep 14 / MYR)

NEW ZEALAND (Sep 14 / NZ $)

SINGAPORE (Sep 14 / S$)

AUSTRALIA (Sep 14 / Aust$)

SOUTH KOREA (Sep 14 / Won)

TAIWAN (Sep 14 / TW $)

THAILAND (Sep 14 / Baht)

AFRICA

SOUTH AFRICA (Sep 14 / Rand)

AMERICAS

CANADA

TORONTO (Sep 14 / Can $)
4 pm close

MONTREAL (Sep 14 / Can $)
4 pm close

MEXICO (Sep 14 / Peso)
12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 11 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY SEPTEMBER 10 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	171.93	-1.8	151.39	142.42	150.86	189.95	-2.7	3.95	175.15	154.46	148.49	154.07	195.21	238.24	153.86	225.68
Austria (22)	189.96	-0.7	167.26	157.35	166.88	166.58	-0.9	2.03	191.20	168.60	162.09	168.19	168.08	259.73	181.60	192.80
Belgium (22)	363.17	-1.2	319.77	300.83	318.67	312.03	-1.5	2.20	367.75	324.29	311.76	323.49	316.69	398.52	234.33	236.73
Brazil (26)	113.08	10.1	99.56	93.67	99.22	245.31	10.1	4.80	102.68	90.55	87.05	90.32	222.82	308.59	102.68	263.76
Canada (119)	184.46	1.7	162.42	152.80	161.86	202.12	1.8	1.99	181.39	159.95	153.78	158.56	198.63	248.78	167.18	214.88
Denmark (34)	471.09	-1.6	414.80	390.23	413.37	412.85	-1.6	1.57	478.51	421.97	405.66	420.92	419.55	537.33	379.22	379.22
Finland (28)	420.93	1.4	370.63	348.68	369.35	454.01	1.2	2.02	414.89	365.87	351.73	364.96	448.45	506.46	267.59	295.58
France (78)	292.54	-0.5	257.59	242.33	256.70	259.93	-0.7	2.42	294.10	259.35	249.33	258.70	261.81	345.18	217.58	223.78
Germany (55)	262.34	-0.1	230.99	217.31	230.19	230.19	-0.4	1.38	262.63	231.59	222.84	231.02	231.02	325.61	204.89	219.38
Greece (37)	260.07	-1.8	228.99	215.43	228.20	542.25	-2.2	1.74	264.94	233.63	224.60	233.05	554.27	333.20	243.18	-
Hong Kong, China (66)	224.62	-3.6	197.78	186.08	197.10	223.49	-3.6	6.83	233.14	205.58	197.65	205.08	231.96	518.79	196.64	504.94
Indonesia (26)	24.81	0.7	21.84	20.55	21.77	181.10	-0.6	3.61	24.85	21.74	20.90	21.68	182.21	159.32	23.58	159.32
Ireland (16)	416.13	-1.4	366.40	344.70	365.14	395.66	-1.6	2.40	422.11	372.23	357.85	371.31	402.01	560.44	359.60	368.61
Italy (54)	142.54	-2.4	125.51	118.08	125.08	177.57	-2.5	1.65	145.97	128.72	123.75	128.40	182.16	184.49	100.95	100.95
Japan (480)	84.59	-1.4	74.48	70.07	74.23	70.07	-3.6	1.12	85.77	75.64	72.71	75.45	72.71	123.57	78.40	122.31
Malaysia (106)	104.10	-3.7	91.86	86.23	91.34	152.35	-3.7	4.08	108.11	95.33	91.65	95.10	158.22	348.41	73.52	343.35
Mexico (29)	804.42	2.2	708.29	666.34	705.85	8278.81	2.0	2.94	787.15	694.14	667.31	692.41	9096.82	1801.98	787.15	1673.45
Netherlands (27)	456.29	0.2	401.77	377.97	400.38	396.54	0.0	2.09	455.21	401.42	385.91	400.42	396.64	562.98	385.56	385.56
New Zealand (14)	48.65	-1.0	43.72	41.13	43.57	50.66	-2.0	6.06	50.17	44.24	42.53	44.13	51.71	95.87	49.47	87.88
Norway (37)	324.02	-0.6	197.25	185.56	196.57	229.43	-1.5	2.74	225.35	198.72	191.04	198.23	232.92	374.64	208.82	334.81
Philippines (22)	42.48	-1.4	37.41	35.19	37.28	92.73	-1.6	1.76	43.09	38.00	36.53	37.90	94.27	107.87	42.48	108.27
Portugal (18)	242.75	-2.5	213.74	201.08	213.00	287.53	-2.7	1.13	248.89	219.48	210.99	218.95	295.39	299.39	235.61	-
Singapore (41)	110.43	0.1	97.23	91.47	96.90	87.45	-0.6	3.46	110.28	97.25	93.49	97.01	87.94	319.68	102.45	319.68
South Africa (39)	162.19	-2.1	142.81	134.35	142.32	222.09	-2.2	4.05	165.65	146.08	140.43	145.71	227.01	346.20	151.55	329.00
Spain (31)	307.77	-2.4	270.99	254.94	270.05	334.58	-2.6	2.28	315.33	278.07	267.33	277.38	343.40	417.73	236.28	251.00
Sweden (49)	477.01	-0.2	420.01	395.13	418.56	553.88	-1.2	2.12	477.81	421.35	405.06	420.30	560.63	628.19	439.98	488.24
Switzerland (28)	371.88	-0.2	327.44	308.04	326.31	319.89	-0.3	1.30	372.55	328.53	315.83	327.71	321.02	439.48	290.19	290.19
Thailand (36)	8.86	-4.0	7.80	7.34	7.77	14.06	-3.6	8.71	9.23	8.14	7.82	8.12	14.58	45.52	8.15	43.54
United Kingdom (210)	335.97	-0.3	295.82	278.30	294.80	295.82	-0.4	3.32	336.96	297.14	285.56	296.40	297.14	401.84	303.41	303.41
USA (623)	410.58	2.9	361.51	340.10	360.27	410.58	2.9	1.59	399.06	351.90	338.30	351.03	399.06	485.88	358.31	371.80
Americas (797)	365.99	2.9	322.26	303.17	321.15	310.29	2.9	1.63	355.77	313.73	301.61	312.95	301.62	437.03	326.79	339.56
Europe (746)	317.89	-0.5	279.90	263.32	278.93	287.82	-0.7	2.33	319.51	281.76	270.87	281.06	289.95	386.24	266.99	266.89
Euroblock (351)	91.93	-0.7	80.95	76.15	80.67	87.32	-0.9	1.93	92.58	81.64	78.48	81.43	88.12	113.28	90.82	-
Nordic (146)	438.22	-0.1	385.86	363.00	384.52	436.53	-0.8	2.04	438.75	386.90	371.95	385.94	440.08	555.97	388.51	416.80
Pacific Basin (863)	89.19	-1.6	78.53	73.88	78.26	75.21	-3.5	1.90	90.64	79.93	76.84	79.73	77.94	138.87	83.29	138.23
Euro-Pacific (1609)	184.43	-0.8	162.39	152.77	161.83	155.22	-1.5	2.21	185.94	163.97	157.63	163.56	157.59	220.18	172.03	191.93
North America (742)	395.58	2.8	348.31	327.67	347.10	396.35	2.8	1.60	384.65	339.20	326.09	338.38	385.39	469.20	349.06	362.07
Europe Ex. UK (536)	297.96	-0.6	262.35	246.81	261.45	275.14	-0.9	1.84	299.80	264.37	254.15	263.71	277.57	366.32	236.86	241.02
Europe Ex. Euroblock (395)	86.82	-0.3	76.45	71.92	76.18	84.96	-0.6	2.74	87.09	76.80	73.84	76.61	85.43	103.93	88.54	-
Europe Ex. UK Ex. Euroblock (185)	89.41	-0.4	78.73	74.07	78.46	85.60	-0.8	1.58	89.73	79.13	76.07	78.93	86.26	109.21	87.93	-
Pacific Ex. Japan (383)	138.82	-2.5	122.23	114.99	121.81	145.97	-3.0	5.07	142.42	125.58	120.74	125.28	150.46	279.07	128.26	276.63
World Ex. Euroblock (2094)	86.98	1.5	76.59	72.06	78.33	86.92	1.2	1.89	85.68	75.55	72.63	75.37	85.89	103.16	83.83	-
World Ex. US (1822)	183.83	-0.6	161.86	152.28	161.31	159.30	-1.3	2.23	185.02	163.16	156.86	162.76	181.38	221.91	175.30	196.07
World Ex. UK (2235)	248.45	1.3	219.84	206.63	218.88	225.59	1.0	1.73	246.18	217.10	208.70	216.56	223.38	298.02	234.24	247.41
World Ex. Japan (1965)	342.50	1.4	301.58	283.71	300.53	332.82	1.3	1.99	337.65	297.75	286.24	297.01	328.41	411.23	309.33	318.33
The World Index (2445)	256.82	1.1	226.13	212.74	225.35	232.01	0.8	1.90	253.90	223.90	215.25	223.34	230.10	306.56	241.30	252.25

 CONSTITUENT CHANGE 14/9/98: Name change: Aliko Enterprises to Aliko Enterprises SA Holdings (Greece)

Emerging markets: IFC investable indices

Dollar terms

Sept 11 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	572.61	+6.2	-48.7
Brazil	228.87	+10.7	-52.6
Chile	345.22		-46.3
Colombia[1]	325.95	+0.5	-60.5
Mexico	348.53	+2.0	-55.7
Peru[2]	137.29	-2.5	-38.0
Venezuela[3]	258.92	+1.5	-71.9
East Asia			
China[4]	26.72	-3.5	-51.7
India[7]	65.20	-1.0	-21.8
Indonesia[8]	12.14	+0.5	-63.9
Korea[5]	24.96	-5.3	+3.9
Malaysia	58.51	-3.7	-35.8
Pakistan[9]	108.48	+3.9	-57.1
Philippines	62.00	-1.6	-45.0
Sri Lanka[10]	61.52	+0.8	-47.1
Taiwan, China[6]	108.78	+0.8	-24.3
Thailand	33.28	-2.2	-29.2
Europe			
Czech Rep	44.40	-1.9	-18.9
Greece	467.05	-2.1	+44.2
Hungary[11]	188.90	-10.3	-40.0
Poland[12]	488.19	-6.0	-18.2
Portugal	271.84	-2.2	+28.7
Russia	21.19	-3.4	-85.7
Slovakia	56.82	+0.7	-42.7
Turkey[14]	142.85	-6.6	-54.2
Mideast/Africa			
Egypt	69.32	+0.1	-25.6
Israel	107.99	+0.1	-11.3
Jordan	229.72	-0.1	+9.3
Morocco	181.13	-0.3	+39.0
S Africa[15]	102.32	-3.9	-43.1
Zimbabwe[16]	125.69	-0.5	-50.1
Regions			
Composite	147.87	-0.5	-39.9
Latin America	321.57	+4.3	-52.5
Asia	75.02	-1.8	-30.4
EMEA	100.00	-3.2	-32.3
Europe	128.03	-3.9	-32.1
Eastn Europe	48.12	-8.4	-65.7
ME & Africa	48.30	-2.4	-32.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1995; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close September 14

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld. %	P/ E	Vol 100s	High	Low	Close Quote	Chge Prev. Close

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 11	Sep 10	Sep 9	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	7795.50	7615.54	7865.02	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.82	106.44	105.44	105.85 (11/9)	104.42 (11/5)	105.85 (11/9/98)	54.99 (1/10/81)
Transport	2679.17	2631.51	2691.20	3686.02 (16/4)	2616.75 (4/9)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	281.88	278.35	278.29	295.49 (8/7)	252.66 (9/1)	295.49 (8/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 7866.31 (7761.00) Low 7497.36 (7458.04) (Theoretical) Day's high 7817.39 (7658.07) Low 7518.99 (7519.50) (Actual)

Standard and Poors	Sep 11	Sep 10	Sep 9	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1009.06	980.19	1006.20	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials♥	1206.72	1175.58	1203.88	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial♥	107.31	102.26	106.92	147.89 (14/7)	102.26 (10/9)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	500.03	487.77	500.57	608.75 (17/7)	480.60 (31/8)	608.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	613.21	608.23	613.44	753.67 (22/4)	565.07 (31/8)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1641.84	1585.33	1624.55	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (9/10/74)
Russell 2000	353.62	344.97	352.69	491.41 (21/4)	337.95 (31/8)	491.41 (21/4/98)	122.36 (7/12/58)

■ RATIOS

	Sep 11	Sep 4	Aug 28	Year ago
Dow Jones Ind. Div. Yield	1.91	1.95	1.84	1.69
	Sep 9	Sep 2	Aug 26	Year ago
S & P Ind. Div. yield	1.43	1.47	1.33	1.54
S & P Ind. P/E ratio	28.54	28.84	30.83	24.80

US DATA

■ MARKET ACTIVITY

[illegible]

■ NYSE TRADING ACTIVITY

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Tcsfr	[illegible]	[illegible]	[illegible]
Telebras	[illegible]	[illegible]	[illegible]
Citigp	[illegible]	[illegible]	[illegible]
ChaseM	[illegible]	[illegible]	[illegible]
MerLyn	[illegible]	[illegible]	[illegible]
Compaq	[illegible]	[illegible]	[illegible]
Lehman	[illegible]	[illegible]	[illegible]
GenElec	[illegible]	[illegible]	[illegible]
NatsBk	[illegible]	[illegible]	[illegible]
Schlmb	[illegible]	[illegible]	[illegible]

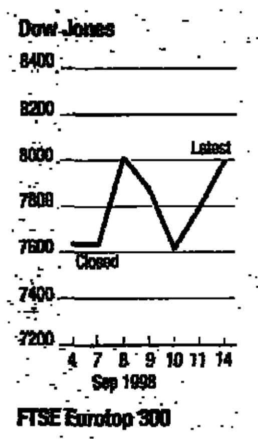
■ NASDAQ TRADING ACTIVITY

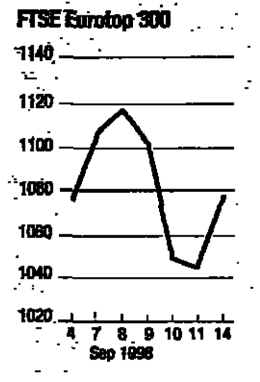
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Intel	35,689,700	85	+5⅜
DellCmp	33,017,800	57¼	+2⅞
Oracle	23,803,300	25⅞	+3⅜
Micsft	13,739,400	104⅛	+3⅜
CiscoSys	13,361,000	92⅛	+4⅜
WrldCm	8,862,000	47¼	+1¼
AscendCom	7,326,590	46	+3¼
Clara Cp	7,033,700	15⅞	-⅜
3Com	6,762,200	28¾	+1
ComcMed	6,554,500	24⅝	-1⅛

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Synalloy	11	+2	+22.2
Signal Com	18	+2⅞	+19.6
Millenn	28⅛	+4⅝	+18.2
Kulick	14	+2¼	+18.5
PacSmrCel	22½	+3⅝	+17.6
Downs			
Mgistics	10⅛	-1½	-12.7
MTG ADR	64⅝	-7½	-10.0
JDA Stw	10⅛	-1⅛	-9.9





JAPAN

[illegible]

■ TOKYO TRADING ACTIVITY

■ ACTIVE STOCKS / ■ BIGGEST MOVERS

[illegible]

GERMANY

[illegible]

■ FRANKFURT TRADING ACTIVITY

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Lufthn	940,507	36.85	+0.55
Dt Tel	750,135	53.5	+0.6
Dt Bk	748,250	104.2	+4.2
Cmzbk	641,720	52.8	+1.2
Bayer	532,005	66.5	+2.5
DrsdBk	512,119	70.4	+1.6
Daimlr	504,026	158	+3.5
BASF	360,257	65.3	+1.1
Siemens	331,429	113.2	+2.7
BHF Bk	291,308	75	+4.5

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
BayHyV	136	+15	+12.4
ErgoVr	305	+20	+7.0
Strbag	124.8	+7.8	+6.7
MAN	563	+35	+6.6
Downs			
MchRsD	440	-32	-6.8
SKW	50.7	-3	-5.6
IKB	34	-2	-5.6
SchwPh	105.9	-3.6	-3.3

FRANCE

[illegible]

■ PARIS TRADING ACTIVITY

■ ACTIVE STOCKS / ■ BIGGEST MOVERS

[illegible]

UK

[illegible]

■ LONDON TRADING ACTIVITY

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
BTR	47,035,280	124	+2
Tesco	29,446,820	171½	+2½
Centrica	29,229,450	109	+1
Shell T&T	20,592,940	375	+17
BT	19,278,360	800	+14
BG	19,024,420	360	+17
Lloyds TSB	18,414,370	675	+23
Emerald Engy	15,101,720	7½	+¼
Allo Zurich	11,499,110	690	+35
Asda Grp	10,944,050	188½	+¼

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Shld Untd	34	+13	+61.9
Haggas (J.)	56½	+15½	+37.8
Cmmt Grnts	22½	+6	+36.4
Powerscreen	86	+17	+24.6
Downs			
Creightons	8	-15½	-66.0
Focus Dys	36	-11½	-24.2
Laser-Scan	15	-3	-16.7
Ass.Brt.Eng	1½	-¼	-14.3

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	1022.00	1031.00	+17.80	1033.00	1022.00	70,355	204,321
Dec	1024.00	1040.00	+17.00	1042.80	1020.00	204,648	258,035
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	13920.0	14320.0	+600.0	14350.0	13710.0	32,092	161,203
Mar	13800.0	14150.0	+350.0	14150.0	13800.0	92	8,130

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	3682.0	3720.0	+128.0	3737.0	3640.0	67,531	205,712
Dec	3705.5	3748.5	+129.0	3764.0	3692.0	3,016	24,465
■ DAX							
Sep	4915.0	4892.5	+135.0	4924.0	4827.5	33,985	82,526
Dec	4945.0	4925.0	+137.0	4955.0	4862.5	10,787	15,954

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	642.00	636.00	+8.00	646.50	634.00	17,314	142,118
Oct	641.00	639.75	+9.50	647.00	639.75	1,636	4,241
■ SOFFEX							
Sep	6625.0	6689.9	+224.9	6689.9	6596.1	7,001	30,227
Dec	6665.0	6700.0	+222.0	6700.0	6645.0	3,102	2,903

WORLD MARKETS AT A GLANCE

Country	Index	Sep 14	Sep 11	Sep 10	1998 High	1998 Low	Yield	P/E
Argentina	General	13201.59	12914.60	12303.14	23485.47 23/3	12303.14 10/9	4.83	10.7
‡The recovery in Brazilian shares supported the market.								
Australia	All Ordinaries	2510.2	2468.3	2526.3	2881.40 16/4	2458.28 1/9	3.82	17.7
	All Mining	574.0	560.3	555.9	713.10 23/4	499.80 31/8		
Chased overseas markets higher while bonds fell back. Resources outperformed and golds jumped 3.1 per cent.								
Austria	Credit Aktien	(a)	383.75	392.19	584.34 26/5	386.17 3/9	1.95	11.9
Hungary	Bux	4597.31	4276.82	4820.67	9016.38 23/4	4276.82 11/9	na	na
A total five shares suspended due to rises of over 20 per cent, while a financial group suspended after 30 per cent fall.								
India	BSE Sens.	3167.22	3083.56	3108.67	4280.96 21/4	2862.55 1/9		
	Crisil 500	617.34	604.91	611.40	815.62 21/4	573.82 18/8	na	na
Aggressive buying by local and overseas investors pushed shares higher.								
Indonesia	Jakarta Comp.	320.59	324.04	327.27	554.16 3/2	328.59 14/9	3.04	12.4
Portugal	BVL 30	4707.13	4587.11	4713.95	6178.89 22/4	3879.27 31	2.13	25.1
	PSI 20	10701.85	10403.99	10697.96	14282.99 22/4	9031.84 21		
Portugal Telecom led the way, rising 6.2 per cent.								
Russia	RTS	63.88	62.31	64.60	411.81 5/1	61.43 3/9	na	na
Shares firmed but activity on the RTS a mere $1.2m.								
Singapore	SES All-S'pore	273.56	267.52	268.71	437.98 19/3	263.29 4/9	3.32	12.6
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THE NASDAQ STOCK MARKET

4 pm close September 14

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close September 14

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EASDAQ

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STOCK MARKETS

Wall Street surge boosts Europe and Asia

WORLD OVERVIEW

Wall Street's enthusiastic performance in the wake of Kenneth Starr's report into sex and perjury at the White House proved infectious to world stock markets, *writes Michael Morgan.*

Most leading Asian centres were firmer with Kuala Lumpur surging 6.7 per cent as official moves to improve liquidity proved more persuasive than news that Moody's had lowered the debt, deposit and bank financial strength ratings of five major banks.

European bourses also got off to a positive start in the wake of the Dow's 179-point rise on Friday. A further advance of 2 per cent in US blue chips during European trading hours yesterday was taken as confirmation that the bourses were moving in the right direction.

In eastern Europe, Budapest was encouraged by buoyancy elsewhere to stage a 7.5 per cent rally. In Tallinn, trade resumed in Hansapank after Friday's suspension. Two Swedish banks, Swedbank and S-E Banken, have been squaring up to take a strategic stake in the Estonian bank, sending the share price up from a July 13 low of EKr41.5 to a high of EKr111.5 by the close of business last Wednesday.

Even Latin America looked steadier. São Paulo climbed 2.8 per cent by midsession after the switchback ride that sent the market tumbling almost 16 per cent on Thursday before recovering 13 per cent on Friday.

Expectations that equities would outperform most other asset classes over the next 12 months has prompted Goldman Sachs to raise its recommended weighting towards equities in its model portfolio from 57 per cent to 60 per cent, against a benchmark 55 per cent. Increased confidence in the global interest rate backdrop has also prompted a rise in the weighting for bonds back to a neutral 30 per cent from 27 per cent.

The US investment bank says that in terms of equity market allocation it still favours Europe and Japan relative to the US and emerging markets.

It believes the markets are pricing in a significant and prolonged slowdown in corporate profitability that will not occur, and this is making current equity valuations attractive.

After the 20 per cent correction since mid-July, Salomon Smith Barney is forecasting a 12-month gain of 28 per cent in European equity markets. Salomon concedes some of its forecasts, especially for smaller markets, may be over-optimistic.

It sees 40 per cent plus rises in Austria, Ireland, Norway and Spain. However, the investment bank still believes the aggregate forecast is achievable.

Dow rises on poll support for Clinton

AMERICAS

US equities rallied sharply in early trading as the market took heart from opinion polls showing continuing support for President Bill Clinton, *write Tracy Corrigan and John Authers in New York.*

Weekend polls showed that most Americans want Mr Clinton to serve his full term in office, reducing the chances that Congress will move to impeach the president, according to analysts.

By midsession, the Dow Jones Industrial Average had gained 200.82, testing the 8,000 mark at 7,996.07, while the Standard & Poor's Composite index gained 2.4 per cent at 1,033.40.

Mr Clinton's call, in a televised speech, for concerted action by government leaders to address the world's economic problems reassured investors that, despite the distraction of the Starr report and possible impeachment proceedings, the president is seeking to reassert his position as a world leader.

Efforts to restore global economic stability would also help improve the outlook for the US market.

This rally may be more sustainable than previous attempted recoveries in the last month, according to Larry Wachtel, strategist at Prudential Securities. "This recovery has better technical legs," he said.

Meanwhile, two more US companies issued profit warnings yesterday. Deere warned that its fourth-quarter earnings would be hit by the impact of declining farm commodity prices on the sales of agricultural equipment, while Hilton Hotels said it had been hit by a decline in Asian visitors in its hotels.

Deere slid 1 1/16 to $32 and Hilton lost 5/8 to 18 5/8. Disney shares fell 3 1/16 to 24 1/16 following a fourth-quarter profits warning on Friday.

Financial stocks, many of which have lost more than half their value since July, continued a rally started on Friday. Some analysts have said that a recovery in the market could well be led by this sector.

Citicorp gained $5 to $101 13/16, still well below its high of more than $180, while many regional bank stocks also gained more than 5 per cent.

TORONTO pushed higher, ignoring a dull start for golds and focusing on a surge for the heavyweight banking sector. The 300 composite index was up 70.46 at 5,959.90 at noon.

A better morning for the Canadian dollar, which took the pressure off the money markets, sent banks higher. Royal Bank of Canada rose C$2.90 to C$67.40 and Bank of Montreal C$2.50 to C$62.50. Bank of Nova Scotia improved 65 cents to C$27.65.

Alcan Aluminium added C$1.10 to C$35.45 and Canadian Pacific rose 45 cents to C$33.30. Seagram gained 85 cents to C$50.30. Golds tracked the softer bullion price. Barrick shed 50 cents to C$26.40 and Placer Dome 85 cents to C$17.90.

Strong results give Paris lift

EUROPE

Results optimism got behind **PARIS**, which staged its best one-day rally for almost four weeks.

In moderate volumes, the CAC 40 index pushed up 136.4 or 3.8 per cent to 3,714.81, helped by strong gains by market heavyweights France Telecom and Renault, both of which announce first-half results today.

France Telecom rose FFr28 or 6.4 per cent to FFr466 in turnover of FFr957m ahead of Thursday's interim results, which some analysts suspect may be accompanied by news of the government's planned sale of further shares in the company.

Car stocks, which were given a boost last week by strong first-half numbers from Peugeot, also rallied ahead of results announcements. Renault, Valeo and Michelin all report today. Renault gained FFr16.40 to FFr282.50.

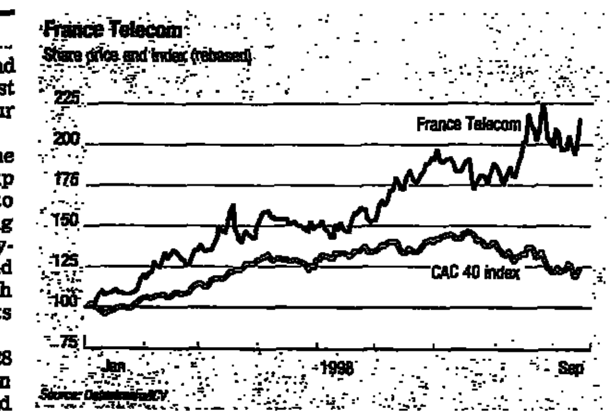
LVMH added FFr14 at FFr869 in spite of a downgrade by Goldman Sachs that cut earnings estimates by 8 per cent for this year and 13 per cent for the next two years.

Usinor, hit lately by worries about cheap Asian steel imports, was the day's top performer, gaining FFr4.90 or 8.8 per cent to FFr60.50.

FRANKFURT rose 138.86 or 2.9 per cent to 4,893.51 on the Xetra Dax index. Man topped the performance charts. The truck and machinery maker, which surged 12 per cent a week ago on strong results, gained a further DM45.50 at DM560.50.

Financials found selective demand. Deutsche Bank gained DM3.70 to DM103.70, while HypoVereinsbank jumped DM12.10 to DM135.80.

ZURICH climbed 3.1 per cent, propelled higher by a strong performance in financials and supported by a firmer dollar. The SMI index rose 200.7 to 6,681.4.



Among the banks, CS Group jumped SFr11 or 5.4 per cent to SFr215 after Lukas Muehlemann, the chief executive, was quoted as saying the recent sharp drop in the share price seemed exaggerated. At the same time, Bank Sarasin repeated its outperform rating on the stock, in spite of the bank's exposure to emerging markets. UBS was SFr20.50 higher at SFr435.

Insurers also had a good day. Zurich Allied put on SFr36 to SFr796, and Baloise was SFr53 higher at SFr1,093.

Inspections group SGS rose SFr25 to SFr1,160, off a high of SFr1,275, after its string of recent losses.

AMSTERDAM saw some switching out of bonds, but the main boost to sentiment came from a rally for financials, and by the close the AEX index – which fell nearly 6 per cent last week – was up 23.24 at 1,033.66.

ABN Amro gained Fl 2 or 5.6 per cent to Fl 38 in 9.9m shares traded and ING added Fl 3.80 to Fl 106.30. Telecoms leader KPN was also in demand after a period of relative weakness due to threatened tariff cuts. The stock jumped Fl 5.20 or 8.3 per cent to Fl 68.

Ahold added Fl 3.30 to Fl 61.10 as roadshow on the retail giant's Fl 4bn financing got underway.

Goldman Sachs and ING Baring raised earnings estimates at Heineken, which gained 90 cents at Fl 90.30.

MADRID was led by the recovery in shares with business ties to Latin America. The general index rose 16.89 or 2.4 per cent to 711.43.

Last week's steep interest rate rise in Brazil supported exposed shares, with banks, insurers and Telefónica gaining ground.

Banks with Latin America ties that had been sold off recovered strongly. BCH rose Pta85 or 6.7 per cent to Pta1,360, Argentaria rose Pta205 or 7.9 per cent to Pta2,795 and Santander added Pta65 or 3 per cent to Pta2,240.

Telefónica, which has large investments in Brazilian telecoms, rose Pta155 or 3.3 per cent to Pta4,880.

Investors switched out of utilities, regarded as safe haven stocks. Sevillana, a small utility, fell Pta15 or 0.9 per cent to Pta1,710, while Union Fenosa lost Pta40 or 2 per cent to Pta1,950.

MILAN was led by a rally in bank shares, and the Mibtel rose 858 or 4.5 per cent to 20,064.

Banks were boosted by news that the Italian Treasury would push for the privatisation of Banca Nazionale del Lavoro, and the weekend unveiling of the names of those institutions which will become core shareholders, namely insurer INA, Banca Popolare Vicentina and Spain's Banco Bilbao Vizcaya.

BNL gained L696 or almost 15 per cent to L4,678. INA added L506 or more than 13 per cent to L4,316. Banco di Napoli rose L179 or 10 per cent to L1,998 while Banca di Roma rose L235 or 9 per cent to L2,761.

Olivetti, the most active issue of the day, gained L118 at L3,853 and Montedison added L57 at L1,687.

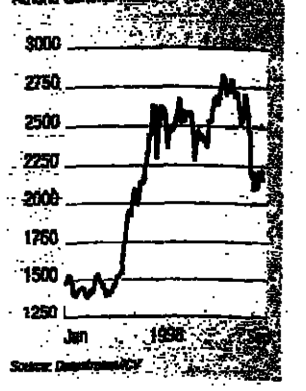
HELSINKI was boosted by a recovery in Russian-related stocks. The Hex index rose 183.98 or 4.2 per cent at 4,521.81.

Hartwall, the beverage maker with ties in Ukraine and Russia, rose FM2.60 or 3 per cent to FM81.10, while cargo shipping group Finnlines rose FM6 or 3 per cent to FM206.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

EMERGING MARKET FOCUS

Greek island of calm in storm



Turnover on the Athens stock exchange has shrunk dramatically since the Russian crisis erupted, but Greek brokers sound confident that a matching fall in prices can be avoided.

After plunging 22 per cent in August, the index has stabilised. Brokers agree that the bull run that drove up share prices 80 per cent between January and late July is over, but point out Athens is among only a handful of emerging markets showing gains on the year.

Yesterday the general index rose 3.1 per cent to close at 2,222. Volume reached Dr34bn ($117.2m), barely a third of daily turnover in midsummer, when trading was so frenzied that Greece's custodian banks were overwhelmed by the flood of transactions.

"What happens next depends on the outlook for fourth-quarter earnings," says John Marcopoulos, chairman of Sigma Securities. "If forecasts are revised downwards by no more than 10 per cent, the market can trade comfortably around the 2,300 level."

Mr Marcopoulos argues that Greece's unusual position of being a European Union member but still an emerging market helps protect the Athens bourse from the international turbulence.

"The government's policy mix is sound. The politicians have stayed calm. Greece is still on the road to monetary union and privatisation is still on track," he said.

Greece's bid to enter Europe's single currency on January 1 2001 is gathering momentum. The budget deficit is set to fall to 2.4 per cent this year, comfortably below the ~~3-per-cent~~ ceiling set for members of the euro-zone. Inflation – 5 per cent in August – is falling slowly but steadily and interest rates on long-term government bonds are declining.

With so much at stake, the government cannot afford delays in the privatisation programme. Flotations of utilities and other companies planned over the next year are important, not just as a means of raising budget revenue but as part of the Socialist government's structural reform package.

"There may be a bit of slippage," says Nicholas Georgiades, analyst at Omega Securities. "The market is likely to give the government a breathing space because of the Russian crisis, but it won't last long."

The economy ministry is preparing the sale next month of another 15 per cent of OTE, the public telecoms operator. OTE managers decided to call off a rights issue intended to accompany the offering because of weak first-half results. But the offering is expected to raise at least $1.4bn.

A fresh attempt will be made to complete two privatisation deals that fell through in the summer. Bids are being invited first for a 67 per cent stake in Hellenic Duty-Free Shops, the state-controlled retail chain which was listed on the bourse earlier this year.

Then a 51 per cent stake in Ionian Bank, Greece's fourth-biggest bank, which is being offered for sale by its cash-strapped parent, state-owned Commercial Bank.

Kerin Hope

São Paulo climbs again

SAO PAULO continued to rally, underpinned by Friday's steep rise for interest rates. Volumes were low in early trading, but there was said to be buying by government-backed institutions.

At midsession, the Bovespa index had added a further 1.6 per cent to Friday's closing gains of 13.4 per cent. The benchmark had risen 87 to 8,485. Telebrás lagged the market, adding 0.8 per cent to R$95.50, but most other leading stocks pushed sharply higher. Petrobrás gained 2.7 per cent to R$116.00 and Eletrobrás 6.2 per cent to R$20.50.

MEXICO CITY also improved, rising 36.20 or 2.08 per cent to 2,953.98 on the IPC index at midsession, although brokers said activity was minimal. Telmex was 28 centavos easier at 18.50 pesos.

CARACAS gained ground with the IBC index rising 30.04 or 1.11 per cent to 2,739.33 at midsession.

Financials boost Jo'burg

SOUTH AFRICA

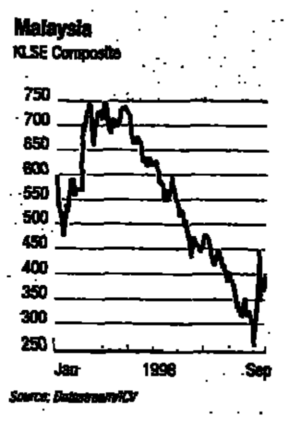
A powerful rally by financials sent Johannesburg ahead, pushing the broad market higher in spite of weak golds. The all share index gained 86.4 to 4,706.8. Industrials rose 151.6 to 5,398.5, but the real driving force to the session came from financials, which surged 236.9 or 3.8 per cent to 6,488.55, thanks partly to a steadier day for the rand.

Golds came off 72.6 or 6.6 per cent to 1,023.4. Anglogold fell R20.60 to R277.

Tokyo rallies on hopes of deal

ASIA PACIFIC

Amid hopes for a political deal to rescue the deeply troubled financial sector, **TOKYO** rallied strongly, reversing more than a third of Friday's 749-point decline, *writes Alexandra Harney in Tokyo.*



Reports that the Liberal Democratic party had devised a compromise solution to the impasse over using public monies helped financial sector shares, which have been heavily sold in recent weeks.

The Nikkei 225 Average improved 2.2 per cent or 310.29 to 14,227.37 after sliding 5 per cent on Friday. The average traded between 13,844.31 and 14,329.92.

The market's momentum was strongly positive. Advancing shares exceeded declining stocks 792 to 358. Only three sectors – transportation equipment, communications and wholesalers – closed down.

Banking shares jumped 2.5 per cent after the LDP reportedly offered a plan that would close the gap in its debate with the opposition parties over a solution to the financial sector's liquidity problem.

Fuji Bank, rumoured to have suffered heavy losses from derivatives trading, gained Y36 to Y372. Bank of Tokyo-Mitsubishi gained Y32 to Y1,052, and Sakura added Y15 at Y251.

However, Long Term Credit Bank of Japan, at the centre of the political negotiations, plunged to an all-time low of Y19 before recovering to Y38, down Y11. Among securities houses, Nomura lost Y15 at Y1,190.

Blue chips and trading companies were down sharply. Nissho Iwai, which was recently downgraded by Moody's, lost Y18 to Y142 in heavy trading. Honda Motor slid Y260 to Y4,390. Toyota Motor, the largest car group, lost Y85 to Y2,755.

Turnover was light after Friday's surge, with 363m shares exchanged. The Topix index of all first-section shares gained 1.2 per cent or 12.68 to 1,084.16. In Osaka, the OSE gained 233 to 14,873.

KUALA LUMPUR ended a low-volume session with the composite index up 24.71 or 6.7 per cent at 393.34. The benchmark fell to 352.50 at one stage before rallying on official moves to improve liquidity. The central bank asked banks to cut their maximum margin above base lending rate to 2.5 per cent from 4 per cent.

SYDNEY moved higher, lifted by US and regional gains plus a good day for gold shares. The All Ordinaries index ended up 41.9 or 1.7 per cent at 2,510.2.

Golds leader Normandy ended 6 cents higher at A$1.25 after hitting a seven-week high of A$1.27. Rio Tinto jumped 43 cents to A$18.00 while BHP gained 35 cents or 2.9 per cent to A$12.51.

Media giant News Corp turned in one of the strongest gains, advancing 35 cents to A$10.44.

HONG KONG was lifted by expectations of lower interest rates in the US and China and confirmation from the Hong Kong Monetary Authority of a steady Hong Kong dollar exchange rate for at least six months.

The Hang Seng index closed 83.38 or 1.1 per cent higher at 7,661.86, but well off the day's high of 7,712.15 in low turnover of HK$3.7bn.

Defensive utilities outperformed other blue chips, while financials slipped into negative territory.

China-linked stocks outperformed. The red-chip Hang Seng China Affiliated Corporations index and the H share Hang Seng China Enterprises index both added 5.2 per cent.

SEOUL was lower on foreign selling of bank shares as international investors took a negative view of the rash of mergers in the sector. The composite index fell 6.09 or 1.9 per cent to 314.24.

Hanil Bank and Commercial Bank of Korea fell by their daily limit lows of Won60 to Won460 and Won450 respectively.

Among other blue chips, Samsung Electronics lost Won650 to Won41,950 and Korea Electric Power gave up Won850 to Won17,300.

SINGAPORE gained ground on retail buying, and the Straits Times index closed up 24.64 or almost 3 per cent at 877.83.

Private investors bought small-caps and penny stocks. Panpac Media rose 3 cents to 19 cents. Natsteel Electronics, which will privately place 39m new shares at 10 cents per share, gained 30 cents to S$3.60.

MANILA ended its three-day losing streak to close up almost 2 per cent. The composite index rose 18.58 to 1,100.76 on technical buying of blue chips in thin volume.